IFB229: How to Deal With Buying and Holding When Our Theory Changes??

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

Dave

0:00

All right, everybody. Before you dive in and start ingesting this episode, we want to forewarn everybody that this is not intended for absolute beginners. If, if there's anything in the episode today that you listen to, that you're unsure about, confused about, maybe don't quite understand. Please go back to our investing for beginners series, which starts with episode 43. And there, through those next five episodes, you'll be able to learn all kinds of great basics that will help explain a lot of the topics and subjects that we're discussing today.

All right, folks, welcome to investing for beginners podcast; and we have episode 229. We're going to answer three great listener questions we got recently. And so, without any further ado, I'll go ahead and read, and Andrea and I will do our usual give and take. So here we go. Suppose I'm investing piecewise dollar-cost averaging into several accounts within a brokerage account. How do I figure out my profit or loss over time seems like brokerage accounts do not want us to know that because one is more likely to stay; invested for fear of a potential loss? If they liquidate the fund.

For example, neither Vanguard nor fidelity have buttons that will tell me what my profit or losses, excluding my contribution; their percentage increase or decrease is misleading because it includes personal investment into account, which is egregious. So how does one go about determining the profit or loss with certainty? Should we be looking for a button slash tool, etc., and brokerage accounts to determine that Mo? So, Andrew, what are your thoughts on Mo's really good question?

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Andrew

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I would say, depending on the brokerage, I've found that just kind of has to track all that stuff myself. Do you track your profit losses separately? I do. So that's what I do. Like, if you were to take a brokerage, not to like picking burgers or anything, but I know ally invest, I have an account with them. And one of the things that kind of annoys me about it is, let's say, I buy Cisco stock for $150. And if I were to get like a dividend of $1, they would increase my cost basis by $1. So it makes my profit look less because every time I reinvest the dividend, they're making that initial cost basis higher.

I don't know if that's a tax thing. Maybe all the brokerages do that; that's quite possible, me not being a tax accountant, not knowing that I take all of the purchases I've done and the dollar amount, and I have that on one column. And then you can import into a new column whatever your stocks are priced at today. And then you can compare those, and you can see if you have a profit or loss,

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Dave

2:01

yep, I do the exact same thing. I noticed kind of early on when I started investing that I didn't have a big portfolio, and I didn't have a lot of positions. And so it was easier for me to track. And I noticed right away, like, I don't know how much money I'm making or losing because they're not really telling me. And it's a little confusing, and, like Moe is saying, I know with fidelity, for example, it shows a gradual increase in my portfolio, like percentage-wise. But then, if I look at the dollar amount, it's, of course, down because everything's down right now. And the two don't correlate.

And so it's confusing, because really, what it's doing is it's taking my contributions every quarter or every month, and adding those like my portfolio is going up. But it's actually not; it's just I'm adding more money to my portfolio. But because the price action of the companies that I own is going any other direction for a lot of them, especially today, then it was it just makes it look like you don't really know how much you've gained or actually not on the positions you've invested in.

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Andrew

3:06

So there's not really a button that I'm aware of with any of the brokerages. So, no, actually, we can't give you a good answer on that other than no DIY.

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Dave

3:15

Yep. I don't see anything good with that. So yeah, unfortunately, you're gonna have to do it the old-fashioned way.

A

Andrew

3:20

Cool. Well, if that changes, maybe we can post an update one day. So I'm gonna move on to the next question that says, hey, Andrew and Dave. So I have a question for you. I've heard Dave say he owns HP stock and that it hasn't done what he had really wanted to do. And he said he wasn't sure what to do with it. So my question is, I thought we were supposed to buy and hold forever.

So why not just hold on to it? If it is not going down? Why not hold it? I have heard, I believe it was Dave say that Microsoft went like ten years undervalued, that there was unrealized by the market and that he didn't know if he could hold it or increase his holdings in it 15 years ago.

And now it's made some great gains. I've just heard that we buy investments, not ticker symbols; if we believe it's a good company and it's not breaking a hard and fast rule, why not hold it and see what happens to it in 10 years, he's saying, I'm not trying to say that you too don't know more than me or you don't know better than me, because you two are definitely smarter at these things than I am. I just heard the greats like Warren and Charlie and Philips say you buy and hold forever. Sorry if this is a stupid question. I'm just trying to understand. Thank you for your time. Have a great day.D

Dave

4:27

So that is a fantastic question. So that's a really, really good question. It's kind of appropriate because today, May 5, we saw a pretty big downturn in the market today. The Fed announced yesterday that they're going to be raising the rates. The market reacted quite favorably the day before, and then today, it was a bloodbath. So it's kind of appropriate to talk about selling and kind of how to handle your portfolio. When you see parts of the market entering the potential bear market territory, I believe the NASDAQ is very quickly approaching bear market territory, which I believe is a 20% decrease in a period.

And the s&p 500 is not too far behind, and the Dow is a little bit farther behind. So all that being said, it's a good time to probably have a discussion again about how to handle your portfolio and what to do with the company. So the company that I was referring to was actually Intel, and the ticker for that is INTC. And that's a company that I've owned for about three years now. And it's a company that has not really done well in the market. And it's kind of been a sideways company; if you will, it's traded between around 45 to $60 a share in that timeframe. So it's been up a little bit and down a little bit by cost basis is around 50 to $55, somewhere in that range. So right now, I'm underwater on the investment. So the kind of idea and the reason why I brought it up is that I've been wondering, what do I do with a company that's not performing the way I anticipated it would when I invested in it. So whenever you buy a company, whatever the company is, we all form a thesis or an idea behind why we're buying this company.

And in the case of Intel, I wrote down a long list of all the things of the reasons why I was buying the company and some of the reasons why I would be hesitant to buy the company. And so, by and large, a lot of the things that I bought the company for are still kind of in play. But there are some things about the company that just doesn't seem to be gaining any traction. And it's fallen behind technologically behind competitors, AMD TSMC, and others. And so it's struggling in that regard. It doesn't have quite the same leadership it used to as far as technology and being an innovator. And there are definitely some things that it's still doing well. And it still controls a dominant share of the PC market, as well as other factors that it is involved in.

But the company has a lot of irons in the fire. And not everything is hitting on all cylinders. And in particular, the fabs are really struggling. And they're doing some great things with other aspects of computers. But without going into all the nitty-gritty. Basically, my worry, and I haven't resolved the worry yet, is that the company is going to be like Microsoft was, where Microsoft reached a high in 2000. And then it dropped. And it didn't get back to that high until 2015. So it took the company 15 years, trading below its high watermark and basically trading flat or sideways for a very long time before it started to recover. And it really did start to recover, frankly, until they got new management, and he said Nadella Satya Satya Nadella. I think that's how you say it. If I'm saying it wrong, I'm sorry. He kind of instituted a change and started moving Microsoft in a different direction, business-wise. And that's really what's led to the resurgence in the company.

And so Intel has a new CEO, Pat Gelsinger took over about a year ago or so. And the jury's still out on whether his ideas to turn around the company will bear fruit or not. And so, at this point, I'm willing to hold on to see if that will be the case. But here's the reason why I'm vacillating is that I think there are other opportunities in the market that I can make better money on than the company that I hold now. And if that position doesn't improve over the next, whatever, period of two or three years, for example, then I could have some opportunity loss and maybe invest that money in another company that could do better. And so there's a tug of war going on. So I still have the thesis hasn't changed that much drastically that I'm okay; I'm definitely done. I'm out of this kind of thing. Like I was with GameStop. A few years ago, it changed. It wasn't going where I wanted to go; I'm outdone. Fine.

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Andrew

9:06

But what was it in Gamestop that you didn't like that made you leave? What

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Dave

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was it that made me leave? Basically, I just didn't believe that the direction that the company was trying to turn towards was going to bear fruit. At the time, they were talking about moving more towards a collectible, being a bigger portion of the business, and helping sustain the fact that retail or the in-store sales of video games, in particular, they could offset that by increasing the revenues from selling collectibles. In other words, like old games, merchandise, and things of that nature.

I didn't believe it from what I've seen since it doesn't look like that's done much anyway. So I think my idea at that time that this wasn't gonna go anywhere is proving to be correct. So I feel like I made the right decision to get out of the company at the time.

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Andrew

9:57

And I agree with that. What was the research process behind That was it. Like, I'm just trying to just so people can apply it to other companies and not just one company or another, right? Is there something in the numbers? Is there something like, are you just Googling to figure out what the company's doing? Like? How do you determine, for like the Gamestop example, that, okay, they're not executing on the plan? And it's obvious to an outsider.

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Dave

10:22

But for me, it was several things. Number one, I obviously read the financial reports, I also listened to their earnings calls, and I listened to multiple earnings calls. So it wasn't just one; it was four or five of them, I listened to slash read through, and to kind of hear what management was saying about how they recognized that the company was struggling. And they recognized that they were could be in trouble because of what was happening in retail, in particular, with their business model of selling, you know, physical games in the store, that the way people were playing video games was changing, and that they didn't really have an avenue to partake in that, per se.

And so they were relying on sales of games, physical games, as well as consoles. Well, that was changing, too, and how the consoles were coming out. And the company was very cyclical, based on when Microsoft would release a new terminal. And so that led me to think, okay, you know, this could be a problem. So then they started talking about trying to change to collectibles and things of that nature. And so what I did was I started reading about, I went online, I just started googling collectibles, and kind of just to see what the market was for that. Not necessarily for games, per se, but like things like baseball cards, memorabilia, and all those kinds of things, that kind of stuff was seeing a huge downturn. And so that led me to think, Okay, well, if baseball cards, for example, are struggling, then I don't know that people are going to run out and buy physical games, too. And so that kind of correlation kind of made sense to be. And then I also started seeing that they were starting to close stores.

So they're a closing location. And then they're also trying to expand business in the locations that they have. Well, that's not a formula for success. You can't, if you don't have foot traffic, and you're closing the stores, can't necessarily up the check average per se; either you're up to check average or need to up the foot traffic, and I didn't think either one was going to make it happen for them. And then you just see the general trend towards retail, physical, retail, struggling, just all those things combined with what Gamestop was trying to do. I was like, Yeah, this isn't gonna cut it.

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Andrew

12:39

Yeah, I mean, I agree with the general Gamestop thesis; that's really tough, especially when half the Xbox is out there today are not coming with a disk drive. So you're just downloading it online.

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Dave

12:51

Right, exactly. So that's kind of what led me to believe that I needed to get out of GameStop. But by the same token, Intel has not gotten there yet. And my thesis is still in play. But you know, realistically, I'm probably going to give it a couple more years to give them a chance to turn around the business. And if they can't, then I'm going to have to make a decision at that point.

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Andrew

13:14

How would you define them to making that transition? And then not? Is it something in the numbers? Or is it something that's more like a gut feeling

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Dave

13:23

is probably going to be a combination of both. So if you look at the company, numbers-wise revenues have been kind of key over the last two or three years; I think they've grown in the range of two to 5%, which is, you know, for the size of the company, not horrible. But by the same token, not great. If you look down further down the income statement and the balance sheet, everything else is ridiculous. And their operating margins are monstrous net income margins monstrous.

They pay a dividend; they buy back shares, or returns on capital are fantastic; they have a super-strong balance sheet with way more cash than they have debt. Financially. At this point, there's really nothing wrong with the company, just the simple fact that they're not really growing revenues. And they're kind of, in my experience, it looks like they're relying on their past glories for today's success. And it doesn't look like there's much going on at the moment that's going to drive them forward.

And that's what I want to see. And if I don't start seeing some of those things, i.e., some of the turnarounds in technology, if they can't start stepping up in their game and the technology part of it, my worry is that it'll turn into an IBM.

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Andrew

14:29

Yeah. So I've got some thoughts about this question. I think it's really key, and especially, you know, unfortunately, with the market going down, hopefully, you've had good sell strategies on the stocks you buy, and you kind of have a general idea of when you want to get out and when you don't. Part of it, too, I think, is sometimes you just make a mistake as an investor, and sometimes you just, you don't do well enough analysis, and when you realize it, hopefully, you can cut the losses that you look at even the best investors Ever, I mean, a good investor, if they're right 55% of the time, they're doing a really good job.

And that's just the way the market works. So for me, I have a company I just recently sold out of. And I felt like I made a huge mistake because of the company's ways of markets, their grocery store company. And at the time, I guess I didn't appreciate or respect the fact that management had said, what they're going to do with their profits, they said, we're just going to we intend to pay a dividend, which, you know, lots of companies do that. We also intend to buy more investment securities. In other words, they're taking their cash in there and just storing it up in the balance sheet.

So even though my thesis on what the company would do, play it out, which is COVID happen, and grocery stores are going to get big profits and growth. And that's happened so far; what hasn't changed, which I thought might maybe change, is management's not doing anything with it, you know, they're not expanding, they're not opening new stores, they're not investing in inventory. It's literally just that they're keeping it on the balance sheet. And so when I look at that, I have to realize, okay, maybe I thought they were going to change that. And if they're not, then the money is better put somewhere else where a company is actually reinvesting that in the business and using that to grow.

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Dave

16:17

Yeah, those are great points. And that's a great example, using Weis markets and kind of how, in essence, the narrative changed the idea. And the thesis that you created when you bought it, in essence, kind of change, or

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Andrew

16:30

is it really did I, something I missed? Because of the idea, I would have dug deeper; I would have seen that this is kind of par for the course of this company. Do you know what I mean? Like, they're just gonna, they're gonna make profits, and they're just gonna keep it inside the company.

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Dave

16:45

That's exactly right. And to kind of answer this question, kind of the idea behind it, when we say that we want to buy and hold forever, that is ideally what we want to do. And when you buy a company, you hope that you have made all the right decisions and right choices and noticed all the things that could have a bearing on the company when you do your analysis. But the simple fact of the matter is, is that people make mistakes, and sometimes we miss judge things; I have another company in mind, PayPal, that I bought eight months, nine months ago, or something like that.

And you know, in hindsight, I think I made a mistake in my analysis of the numbers of the company. And I bought it at too high of a price. And now I'm down 64%, or something crazy like that. So it's a big loss. But at this point, I'm not planning on selling out of the company because Andrew and I were talking about this before we came on the air. And he asked me, Would you buy it now at today's prices, I absolutely would. And so that just means to me that I would dollar-cost averaging into it and try to earn a lower cost basis, which when the company starts doing better in the market, then it will start to improve in the market.

One of the things that our friend Braden said several times to us is that business results matter. And in the long term, those will make an impact on what happens with the company in the stock market. And sometimes, everything gets thrown in with the bathwater. And I'm not saying that a company like PayPal, for example, didn't deserve to see a 60% drawdown; it may have been all the stock gains that the company is going to earn may have been pulled forward because of the pandemic, because of the stimulus checks. There are lots of things, you know; for me, it could have been the fear of missing out; I could have easily fallen victim to that. I didn't want to see it become the next Google or Costco, where I missed buying it at a lower price. And then, you know, the market continues to reward the company for its success.

And in the future, you know, I miss out so But ideally, when we go into a company, we want to hold her for a long period of time. But one of our other, I guess, rules or certainly an idea for me is that if the thesis or the idea behind the company changes for whatever reason, if the business fundamentals of something about the business changes, then that's when you need to reassess your investment. You can't just buy something and forget about it for ten years and not pay attention. It doesn't mean that we want you to buy and sell in a month. But you also need to give things time to play out. And sometimes, the narrative will change. And sometimes, it'll change for the better. And sometimes it'll change for the worse, or management will leave, or there's just a myriad of things that could go on. The game stops business model could stop being a thing, and then it becomes a problem for the business to continue.

So you know, those are all things that would lead you to think about selling at any particular time. And those are all things you need to keep in mind. When you buy, as you know, having a sell strategy is just as important as having a buying strategy. Okay, we've beat that to death. So let's move on to the next question.

So I have a dear Andrew and Dave who's Thanks for your excellent podcast; it really opened my eyes to investment as I am on my path to becoming a more intelligent investor. Having said that, I sense there's a contradiction between the two major slash principles; you guys are promoting one buy and hold buy more when the price falls versus to sell when the price falls heavily, Eg, by 25%. On the one hand, you are advocating to really hold your stock for the long term, despite the volatile stock fluctuations, as they do not necessarily show the actual value of the company.

Even more, you are advocating to buy more when the stock price falls as considered being at a discount level. We do not care about the views of Mr. Market that much, right. On the other hand, you were saying that you're using 25% trailing stops are often provide examples where he sells automatically if the price drops by 25%. How's it different from this speculative approach that would just follow the market price? I understand that Andrew uses trailing stops for companies that are not his dividend fortresses, but for me, it is still super confusing and unclear what I should sell when they fall. And should I hold on? I'm really grateful for your amazing podcasts. Are you really love that it is not flashy and does not use clickbait titles? Regards, will you Liudovic from Lithuania. So hopefully, I said that right. Such a good job. Thank you. Sounded right to me. Andrew, what are your thoughts on this? Great question.

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Andrew

21:19

So in the past, I used to just give background information. When I first started out managing a portfolio, I had my portfolio in two different buckets; there was the regular portfolio; I put that in air quotes, where there's a trailing stop attached. And then there were the dividend fortress stocks, which are intended to be held a lot longer, you know, ideally ten years or more. And those do not have trailing stops; I found that it did not work for me in several ways; one of them is exactly like Ludovic is saying sorry. That means a bunch of that is yes. If you are using a trailing stop, you basically are kind of teaming up with Mr. Market to say, hey, what do you think should I sell that completely goes against a lot of the things that we pay attention to; we teach and weave have read about. And so I started to understand that, why to do that for a part of my portfolio, why do that for any of my portfolios, if I'm not gonna do it for all of the portfolios. So that was part of it.

The other part was that I realized that the type of investment strategy I was looking to do also evolved over time. So in the beginning, I was really big on trying to find stocks, and they're really, really trading at a discount, like, you know, hiding under the floor, or the clearance rack kind of an idea, and buying and selling a lot of those. Over time, I felt that this doesn't really fit my personality. And I like the idea of businesses doing the work for me over the long term and compounding that money, rather than me having to micromanage every month, trying to buy and sell when something's expensive or cheap and do that over and over and over again. So the trailing stop could potentially help you if you're getting in and out of a lot of stocks and being very, very active over time; I've become a lot less active, which means I'm also a lot less picky on price.

And I feel like that goes hand in hand. So I'm staying away from the clearance rack most of the time, I'm not going to, you know, the most expensive designer section I'm staying with where the prices are fair with the stocks and good businesses I know can compound my money, have a good idea that they will do that, and buying them at fair prices. And so once you kind of makes that switch, then 100% Doesn't make sense to have a trailing stop. So as you listen through the archives of the podcast, he listened to where we were when we first started in 2017. As we continue to teach through all of the different concepts, you can see as our approach has evolved, and my approach has certainly evolved. And so that's why I don't use trailing stops anymore. D

Dave

23:52

Yeah, I agree with everything that Andrew is saying. And if you listen back to the entirety of our catalog, you can see that when we started, we were a certain type of investor. And over time, as we've learned more and gained more experience, we have, like Andrew said, evolved a little bit and the basic core ideas of what we're looking for and how we invest. That really hasn't changed. But our understanding of businesses as we studied them more has evolved. And as you gain more insight into how companies do, what they do, and the different things that you'll see in the market, as well as the different things you'll see in the companies, that will, of course, evolve how you react to certain things.

And it becomes much more important to understand the kind of the experience and the ins and outs of the business as opposed to focusing 100% solely on the numbers at the beginning. It's easier for people that don't have a lot of experience really understand more of the guesswork, the gut feeling part of learning about how a business does what it does. It's much easier to look at an operating margin and project that that's going to go up percent over the next year or two, and kind of thing.

But once you get better at understanding how businesses do it, they do, you're interested, you can get a feel for the mechanics of why that operating margin may improve over the next two years is because the company is reducing costs, or they're selling higher-priced products, which give them a bigger margin on the between the cost of the good and what they're selling it for, which increases their margins. All those things are things that you learn as you gain more experience. And as you read more financial reports and understand how businesses do what they do. And if you look at just about any investor out there, you're going to see the majority of them evolve.

Warren Buffett is a classic case of somebody that has evolved his thinking, in part from his experience with Charlie Munger, who certainly influenced him, as well as it's just his own inquisitiveness and knowledge. And the fact that he's been reading financial reports for 70 years, he's figured out a thing or two. And so he's, you know when he started, he was very much a cigar butt investor, kind of like Andrew was talking about buying the things that are below what falls on the discount floor. And you know, trying to get one more puff out of them before selling them and moving on to the next thing. And now he's evolved into where he just basically, you know, he tries to find these great businesses that he may be willing to pay a little bit more for, but he's going to hold them for a long period of time, that will give them great returns.

So like Andrew was saying, the price becomes a little more immaterial than it did at the beginning. It's still important, but it's maybe not as important as it was before. So all that to say that I think when you look at how investors grow, it's just because they gain more experience. And all of you out there, they're listening to us; we'll and are experiencing the same thing. If we go back and look at the questions that you guys were asking us 543 years ago to now, they've, you know, evolved. They're far more in-depth; they're a lot more nuanced. And they're a lot more creative. And they're also definitely pushing the boundaries of what may be beginners would necessarily ask. And, you know, don't get me wrong, we still get lots of those questions, too. And those are great.

But we certainly have seen an evolution in the people that listening to us that have learned, you know, from the experiences of doing this for themselves and listening to us along the way. So these are all things that are naturally going to happen as you become an investor. The idea that you're going to invest the same way now that you will five years from now, you're going to change, you're going to change everything. I mean, think about pizza, you know, when you first start buying pizzas, it's the Tinos, pizzas, the frozen pizzas. And then the next thing you know, you're you know, buying Papa John's or Domino's, and then you're graduating to, you know, some, you know, local restaurant that's got the best pizza, you'll never go back to eating Papa John's or Dominoes or Totino. Again. So it's just natural for people to evolve.

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Andrew

28:02

I think something last time we talked about still laughing about your pizza comment. Last time we talked about Buffett's evolution, I mentioned, and this is something that you helped coach me through during the pandemic was that you don't have to evolve all at once; you know, Buffett took a very long time over his evolution. And so you do have to be careful about the evolution to that you're not just moving with the market, and you're just kind of changing the way you think all the time. It's a very another process. So hopefully, by listening to our show, you're internalizing the primary fundamentals and principles that are important margins of safety and buying for the long term, things like that.

Yes, you certainly do want to evolve over time. I mean, look at Buffett just to kind of go back to one more time. He said he never wants to buy technology stocks, and his number one, holding over 50% of his portfolio something is apple. Yeah. So you know, if Buffett can evolve and he's the best there ever was, yeah, he's choosing to evolve, then I think we can all certainly learn from that too. But he did it over time. He did it over years and decades, and it wasn't, oh my goodness, the markets down 10%, So I'm gonna change everything I do. That's wasn't that's not evolving. That's freaking out.

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Dave

29:15

Yep. Yep, I agree. Alright, folks, well, with that, we are going to go ahead and wrap up our conversation for today. I want to thank everybody for sending those three great questions. Those are awesome. And you guys are asking, Like I said, great questions.

And these are really timely topics, especially with some of the things that are going on today. So thank you again for sending all that great stuff. Again, if you guys have any questions about anything that we discussed today, please refer to our website, investing for beginners.com. We have a search bar there at the top. It's a great encyclopedia for you, too great to look for all kinds of great topics and subjects that we talked about today to help answer any additional questions you may have. There are about 1000 articles on there. So there should be something there for everybody. It's not a joke; either is over 1000. Yeah, it's nuts. 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 the safety. Have a great week. I'll talk to you next week.