



## IFB270: Difference Between Knowing the Name & Knowing the Thing

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**Dave**

0:00

All right, folks, welcome to Investing for Beginners Podcast. Today we have episode 270. Today we're going to talk about a interesting subject. So I came across a question, I guess, from a physicist, his name is Richard Feynman. And if you're not familiar with him, he was a brilliant, brilliant man, he worked on the Manhattan Project early in his years. And he went on to do lots of lots of great stuff. But Richard Fineman is famous for coming up with this idea of being able to explain something to you, like I'm five years old. And if you ever heard that phrase, it really comes from him.

And he used to say that you need to be able to really understand a subject, you need to be able to explain it to a five year old. And so if you can really do that, then that really helps you condense your thinking, and yada, yada, yada. So anyway, all that to say this phrase that I came up with, is he talked about knowing the name of something versus knowing the thing itself. And some of you may be out there going, huh, I don't get it. So he uses a, an analogy to kind of explain this idea. So think about walking in a forest. And you're walking through the forest, and you see all these different trees, and maybe you know the names of the trees. And that's great that you know the names of the trees. But do you know the tree itself?

Like, can you explain everything about an oak tree? Do you understand how photosynthesis works for the trees, how the roots go in to the ground and get nutrients and water for them how the bark works, how the tree grows, how it dies, everything about the tree that's knowing the tree, beyond just knowing the name of the tree, which is an oak tree, that's great. And I think today, what I'd like to do is kind of take that analogy, and kind of think about how we invest and think about how people invest. Like, if you've walked down the street, and you ask 10 people, can you name me? Three stocks from the stock market? Most people are

going to be Yeah, absolutely. Walmart, Amazon, and Apple, for example. Easy names to know, everybody knows them. A lot of people use their products.

But how many investors that maybe buy those companies actually know, the business, they know, what they do, how they make money, their financials, all those kinds of things. So that being said, I thought we could maybe talk about the differences between knowing the name and knowing the thing itself. So Andrew, what are your kind of initial thoughts on this idea that Richard Fineman kind of presented and how we can kind of use this to become better investors?

**Andrew**

2:44

I think it can be a super useful framework. I mean, I wonder just applying it very generally with investing. I think a lot of us kind of know that we invest, or we might have a 401k. But if we don't know investing, what are we going to do when the market crashes? Are we going to still keep investing? Or are we going to panic? Because it seems like everybody else around this is panicking. I wonder if by knowing investing, and knowing how it works, if that can help your behavior to become a better investor?

**Dave**

3:19

I think it absolutely could. I think the I guess the perfect example of this is how many people have invested in a company like Tesla, or peloton, for example, because they know the name, but they don't know the business. And Tesla is one of those examples of a company that has a larger proportion of retail investors, which are average people like us versus institutional investors, like the big black rocks and companies, you know, the Vanguard's and companies like that, that have filled mountains of people working for them. A lot of people, I would hazard to say that a lot of people bought peloton, for example, simply because they knew the name.

They were familiar with the bikes, they didn't understand the ins and outs of the business. And the people that maybe got in or got in late during the pandemic were now we're suffering from that decision of not understanding the business and even today, they don't understand the business. And they still know the name. They don't see how much the company has been struggling financially and how much of an impact that can make versus how well people may have piled into Tesla because of the name Elon Musk's reputation, his charisma, and it knew nothing about the business. And now ironically, that the business is doing 1000 times better than it was two years ago financially. I don't probably not as many people are in the name. So it's kind of an interesting dichotomy.

**Andrew**

4:48

I guess it's interesting, too, because imagine you had been the investor who knew Tesla and you got in early enough and you've made a bunch of money from it. But now what like if you haven't developed got the skill? How do you identify the next Tesla? Right? So you know, let's say where somebody who's out there raising their hand when you said Tesla, or when you said, peloton, but not really knowing the business behind the name. How would you recommend somebody go about doing that?

**Dave**

5:18

Well, I think the first thing you need to do is you need to read the financial statements, you need to look through the 10k, or the annual report, and you need to start to understand what the business does. Charlie Munger and Warren Buffett, easily two of the most famous investors, arguably the best ever, they spend the majority of their day reading financial reports, so they understand the business. And they have this phrase that they talk about the too hard pile, and that it's much, much bigger than they understand pile. And that's part of the process is going through the business and seeing if you can understand the business.

Perfect example for me for my life is companies that work kind of in the biotech biopharma world, it's just not an industry that I understand. And so if I was to sit down and read a financial report from one of those companies, I probably wouldn't understand it, the terminology, the way that those businesses make money, would not be intuitive to me. And so then it would have to go in a too hard pile, whereas other people may look at reading the 172 Glorious pages of JP Morgan's 10k. and think, Wow, this is overwhelming, this is really hard to read. Whereas I, I'll be along can read JP Morgan's 10k and understand what it is they do and everything because it falls within my purview of things that I understand.

And so I think starting there would be the absolute first place you need to start and understanding the business. And if that doesn't, you know, if you can't correlate those two, or connect those two, it's okay to move on to another company. And that would be the first place I would start. What about you?

**Andrew**

7:02

I think that's great advice. And I would agree that some of these should start there as well. So you're saying maybe don't take a bank annual report, like you did as your very first annual report and try that, though?

**Dave**

7:16

No, I would, I would not recommend that. It was a long, laborious process, because I literally had the 10k in front of me and my computer open. And we're flipping back and forth between the terms I didn't understand and what I was reading, and it took probably five times longer than it should have to normally have read it. But by the time I was done, I had a pretty good grasp on everything.

And then when I read Bank of America's and Wells Fargo's and, you know, yada, yada, then it became a lot more easy, you know, just by repetition. But honestly, the first time I read pieces, I didn't get it, I didn't understand how they made money, it took me a while to work through the process, I actually had to start writing about the company and creating different diagrams and to really understand the flow of what visa does and how they make business.

Because truthfully, when I read through the first time I read through a 10k, I didn't get it. And that's okay, I just, you know, like I like to say water dripping on stone, I just I wanted to understand. And so I spent the time and the effort to try to figure it out. But it goes back to what my interest was. And it was important to me to spend the time but that was what I needed to do to really kind of understand the business. So when

**Andrew**

8:32

I think of causes, I mean, it's a whole spectrum of annual reports from companies that are really easy to read and understand and those that are really complex like banks. So when I think of easy to read annual reports, I think of Apple, I think of Microsoft, I think a Google, and I think of like certain restaurant operators like those that own their own operations like Texas Roadhouse, or Chipotle. But, you know, someone might be interested in companies that are way different than that. So I don't really necessarily have an answer for that. So I'm just gonna see if you do like, is there a way that somebody can easily find more simple annual reports to kind of cut their teeth on?

**Dave**

9:12

Ooh, that's a good question. I don't know of any resource per se out there, that I've come across that guide you to Hey, read these first to kind of, you know, cut your teeth or to get your feet wet to understand this. I think the way that I would think about it, and the way I should have thought about it was thinking about a

simpler, easier businesses a perfect example that kind of springs to mind a couple of them would be something like Walmart, or something like Home Depot, retail businesses that we understand that are fairly simple businesses think about Walmart and what it is that they do, even kind of separating some of the more techie sides of the business, like their online business that they're starting to grow and some of their financial stuff that they're starting to embrace.

But if you just think about their core, business, grocery and retail Well, I think most people can understand that. And so when you look through their annual report, it would be easier. I've not read through Starbucks, but I think Starbucks would probably, that strikes me as one that would probably be an easier one to look through and read. I agree apples, I think is Apple's is very clear and very concise. And it's, it's relatively easy to understand. You don't have to be able to create an iPhone to understand what Apple does and how they make money.

So I think sometimes people may automatically disclude or exclude a company to school, don't think that's a word, exclude a company like Apple or Microsoft, because they think, Oh, I have to know the tech? Well, yes, and no, I don't think you necessarily have to understand how the cloud works on a granular level. But if you at least understand the makeup of it, which you can learn by reading through the 10 Ks, I think they can give you a lot of insight, you know, other sources that I have used, is, besides reading the company's reports, I have also looked at other people's writings, because sometimes other people will write about these companies in a way that they're trying to educate themselves.

And by doing that, that helps educate us. So people on Seeking Alpha and substack, for example, or two that just kind of sprang to mind stratosphere, Adrian that writes a lot of the articles at stratosphere does a really good job of explaining the businesses in a kind of a clear, concise way. And so those are other resources you can turn to, to help give you better insight. Andrew, he does a great job. And with his letter picks every month of kind of explaining what's important for the business, sometimes it's easy to get distracted by different things. And by focusing on the core of what a company does, that can help, you know, illuminate a lot of what you're trying to understand about different businesses.

**Andrew**

11:50

Thanks for that. You're also I guess, what would be the next natural evolution of RIT first started to immerse myself in knowing the business do you think there's another side to this, knowing the name versus knowing the business that is important to continue down the path of

**Dave**

12:09

I think there's several things that kind of just springs to mind when I think about this. So once you understand what the business does, and how they make money, then you have to understand the financials of the company. And it doesn't necessarily mean that you initially have to understand every line item and its implications. But I think you have to have a basic understanding of is the company's revenues? Are they growing? Are the company's margins getting better? Do they have more cash on the balance sheet versus debt? And vice versa? Is there equity growing in the business? Are they generating free cash flow, and if you don't know what those terms mean, you can go to our website investing for beginners, and you can learn all that shameless plug.

But once you kind of understand those general overviews, then you can start kind of parsing through some of that stuff to get a better sense of what's going on with the financials, because that's really the heart of the business. And that's really going to tell you the story of how successful this company could be in the future. One caveat to all that is, we always have to remember that the numbers that we're looking at our past numbers, and the future results that visa could execute, are not guaranteed and are not predicated on what happened last quarter or last year, as much as we would love them to be businesses based on real world stuff. And it can be a problem just assuming that visa is going to grow at 12% next year.

And that's what makes it hard about projecting the stock market does not base its pricing on what happened in the past, they're basing it on what they think is going to happen in the future. And collectively, we all agree or disagree on that pricing in the future. And so when you're looking at the financials of the company, you have to keep in mind that this is all stuff that happened in the past, that doesn't mean that they're going to do this well in the future, or badly in the future, likewise, and so you kind of have to understand that these things are going to change. And I think that's part of the art of investing is looking beyond this 12% revenue growth over the last three years, what is it going to do the next year, and then you have to that goes back to understanding the business as well.

So they're all kind of interconnected, and they kind of build on each other. So once you understand the business and how it operates, and then you connect that with the financials, then everything starts to coalesce a little bit better. After we kind of understand all that, I guess the last part that I would consider would be understanding the risks involved with investing in this company. There are no risk free investments out there except to bank and that's not really there is a risk to that too. But here in the United States, it's a much smaller risk, but any company you buy, you know we've said this before it's no slam dunk. Investing in Tesla or peloton, or visa or Google, or insert name is not a guarantee that it will do well. And the greatest

investors out there, Warren Buffett has made plenty of mistakes, he bought IBM, and IBM did not do well for him during that investment. So even the greatest make mistakes, and not every investment is going to be a slam dunk. So you have to understand the risks of investing in those companies.

Like for example, Taiwan Semiconductor, integral to the global economy, you know, huge mammoth company, big moat lots of great growth. It's the leader in its industry. But it's has a lot of geopolitical biggies with you know, there's lots of speculation that China may invade Taiwan, whether or not that happens or not. I don't know. And I can't speculate on that. Either way, I'm not smart enough. But the idea is, is that it's a risk, and it's something you have to think about, if you decide you want to invest in a company like you have to come to terms with, how likely is that risk? And how, how much could it impact your investment in that company? So those are all things that you have to consider when you're investing.

So understanding the business getting a handle on the financials, at least from a 10,000 foot view, if you will, and then understanding the risk of investing in a business. I think those are kind of the three components, if you will, of getting started with everything.

**Andrew**

16:23

Yeah, I think that's perfect. That's brilliant, really helps you paint the picture of what's going on. I feel like I use that language a lot. But I think it kind of helps to, it helps me when I'm trying to figure out what's going on, is this a good investment or not? Rather than answer that question, I think this is something you had said several episodes ago, in the process of learning. If I want to buy this company or not, you should get lots of questions pop in your head. And you can even start to write them down and then answer them yourself.

And that kind of helps lead you down this rabbit trail. And to me, that naturally happens. And I started asking myself more questions, and I started. So instead of just Is this a good investment? Yes or no, it should be? Is this a good investment? Well, what about this? Well, what about this? It depends. But you know, and all along that then I've found that sometimes I can make snap judgments on something too quickly. And if I try to more like envision myself painting the picture, and just collecting all the information I've found, I've tended to find better investments doing that way. But it's tough. It's definitely a balance.

**Dave**

17:35

It definitely is. And it's an ongoing process. And like anything else, whether it's riding a bike lifting weights, or learning how to swing a golf club, it's all about repetition. And the more that you do it, the easier it can become, it's not always going to be easy, and there's going to be challenges. But one of the things that I love about Charlie Munger is he always talks about inverting. And by that he means you want you to look at things from a different angle.

And he wants you to find reasons not to buy it. And if you can overcome those knows, then that just means that you have a better knowledge of the tree. And that you're going to make a better decision in the long run. Because the more you understand the business, the better. And I know that as I've gone along as an investor, and as I've owned companies, and own them for a longer period of time, I get a deeper appreciation and knowledge for what the company is doing. And so I don't have to spend as much time my newly discussing or analyzing every single going on of a particular company, because I could just briefly look at the numbers and go, Okay, they're just everything's, you know, everything's moving along. And then there's other ones where you just maybe don't know as well. And so you have to or they're newer to your portfolio.

So you have to spend more time trying to get more knowledge, so you feel more comfortable with everything. But that idea of coming up with questions as you go along, and then trying to figure out how I think he calls a killing his babies, trying to figure out a way that you can say no to investment, and then overcoming those knows, I think is a really valuable exercise when you're trying to invest because it can really illuminate and highlight things that maybe you haven't thought of. And you know, having somebody else to kind of throw the idea and get their viewpoint and opinion and sometimes, you know, you may be talking to somebody and they may turn their nose up at that age.

And then that gives you an opportunity to ask them, why don't you like this, and then they can tell you and it may be because they have a different viewpoint and may give you an idea that you had not thought of, or an angle that you haven't thought of about a particular company and that can be that can help save you or it can help you to make you in the investment and reminds me of our conversation yesterday. Yeah, exactly.

**Andrew**

19:51

So the only thing I'll fight against with everything you just said is 100% agree that repetition will help you become a better Esther, when it comes to my golf swing, though, that hasn't been the perfect correlation. So we might have to look deeper into something like that. But yeah, it definitely gets easier. And, you know, you talked about just maybe bringing it full circle, but you talked about learning and starting to read the annual report for business to start to get to know the business.



The more and more you read those, the quicker you can do it, because I remember being so overwhelmed by seeing all of that. And if I did one thing right at the beginning was I just blinders and I just focused on little things that I knew that I knew. And as you repetition over time, that narrow view can start to broaden and start to broaden, start to broaden. And then you get into the beauty of all the details around the businesses around you. And I think it makes it can make your even your daily commute look differently because that you know those things that you didn't before, and it can be a really fun process.

**Dave**

21:00

Yeah, it really can. Alright, well, with that, we will go ahead and wrap up our conversation for today. This was a lot of fun talking about the difference between knowing the name of something ie the tree, and understanding the what makes up a tree and what goes into it and how this can relate to your investing. I think this is a really interesting question and a really interesting phrase. And I think if you can kind of take these ideas to heart, it will really help grow exponentially grow your knowledge and your skill as an investor over time.

And like we said, I'll be aside from the golf game. Repetition in this field will definitely help make you a better investor. If we've talked about anything today that you are unfamiliar with, don't understand, use the jargon that you're like, I don't know what that is, please check out our website [e investing for beginners.com](http://einvestingforbeginners.com). We have a huge search bar at the top that will help clarify, you type in balance sheet. And you're going to find all kinds of articles about the balance sheet that will help give you more detail and a better understanding of what a balance sheet is for Apple, for example, and that can help you become a better investor.

So it's a resource there to help you learn. So without any further ado, I'll go ahead and sign this off. You guys go out there and invest with a margin of safety, emphasis on the safety and have a great week and we'll talk to y'all next week.

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