# IFB299: Red Flags in a Company's Financials

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**Dave**

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All right, folks, welcome to Investing for Beginners Podcast. Today we have episode 299. Today we're going to talk about some red flags that you could find in financials that might help you avoid a little pain in the future. So with that, let's go ahead and dive in Andrew, what would be your first red flag when you're starting to analyze a company that would cause you to go ahead, maybe not.

**Andrew**

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So the simple, very simple one is if a company used to be profitable, and now it's no longer profitable, you can look at the big number that gets all the attention, the bottom line, the earnings per share. And if that goes negative, to me, that's a red flag, especially because a company used to be able to turn a profit now, it's not what's going on here. And so I looked at 30 Plus bankruptcies in the past two decades, ever since the year 2000.

And that was the most common characteristic, they all shared a lot of different numbers that were all different. But the most common one they shared was they were not profitable in the year before they went bankrupt. It's not rocket science, right? It's something that I think gets ignored. Maybe a little bit too much. Not to say it's always a red flag, but it should bring your attention and say, Okay, why is this happening?

**Dave**

1:20

Yeah, it should, and maybe to help explain kind of that idea of these companies that have gone bankrupt? A lot of them were profitable at one point, and then it became unprofitable. Correct? Yeah. So it's normal in the evolution of businesses, if you will, especially companies that are starting out to be unprofitable. But hopefully at some point, they achieve profitability. And you know, and that goes on for a long time. But when you see like the companies that you were talking about, you see them go from being positive to negative, that's certainly a red flag.

You know, what RadioShack was that way? Sears was that way? Was that Circuit City? Yeah. Circuit City. Yeah. Yeah, all those companies were profitable businesses, and then they were not. And so if you see that going in the wrong direction, that's probably a sign that you may want to run for the hills. Yes. Yeah, for sure. Because as Buffett says, turnarounds don't often turn around. So keep that in mind. I guess what would be kind of the next financial red flag for you.

Andrew

2:23

Another pretty simple one is the debt to equity ratio. And if that starts deteriorating really bad, then that's a red flag to me. So that's equity ratio, you can calculate it several ways. But if you just think of a company's liabilities, and you compare it to their equity, if that ratio, they just start piling on all these liabilities, and it's much more than they've historically had, then that could be a red flag, because it could be almost on life support, trying to keep things afloat by adding a lot of debt, spending too much money, all those things can happen.

And so when you see that equity is really expanding, and there's no good reason for it, you could have, it could be like a telltale sign that okay. Inside of the business, things aren't as good as it used to be. Here's one of the first signs and we're trying to cover that up with more debt, or, you know, burning through cash flow, or cash pile, things like that. Right? Yeah,

Dave

3:27

that makes a lot of sense. So in essence is more about looking at the history of a company and then seeing that this ratio, the debt to equity ratio, you're seeing it start to get out of norm for them, because companies will go through life cycles, right? And then you'll see sometimes you'll see in different seasons of their life, if you will, that they might take on debt for a lot of purchases, or they're building out facilities or something along those winds, and then that gets back under control. But if you see it in, they've never been like that, and all of a sudden starts to spike, then that probably would be assigned, correct?

**Andrew**

4:02

Yeah. And so this one, I ran a back test on looking at 1000s of stocks, and then tracking their market cap over one year, two year three or five year time periods. And the stocks that either from positive profitability, the negative profitability, or had this super big expansion in debt to equity, if a company had that their stock performance over the next three and five years was worse than if a company didn't have that. And so that was a back test I ran and that was tied with the latest version of the value trap indicator.

But it just goes to show you. Again, it's not rocket science, but either something's being covered up, or they're trying to be aggressive and change things, turn things around. Or maybe they're just biting off too much than they can chew. A lot of times it can work but in the majority of cases, it did not

**Dave**

4:58

make sense. That makes sense. That's, that's an interesting back test. So I guess would you say it's just because there's too much debt? Or are there other things about taking on the debt? That cause I guess, fragility, or weaker economic conditions for the company is or something else related to that that caused problems?

**Andrew**

5:17

Oh, man, that's a good question. I mean, it can really be all of the above. We'll give an example. When, when we railed on Starbucks and their balance sheet, all these years ago, they took on a lot of debt. And what did they do with the new cash, they just bought back a lot of shares. So none of that very little of it actually went to the operating business of Starbucks to pay their employees or to open stores. A big portion of that went to buybacks.

And so their stock didn't do as well. And if you think about what you're essentially doing, when you borrow money to buy back shares, you're increasing how much you have to pay an interest down the road, and not necessarily making a better Starbucks drink, you're not necessarily investing in making the product better, you're not necessarily investing in opening more stores, so we can have more profits later, you're literally just borrowing money to give it back. And when you do that too much, you won't have as good of operating results as somebody who maybe like Amazon was actually spending money to build out their distribution network. And now, you fast forward and Amazon's much bigger than Starbucks. And I'm not saying just as an example, you can see the difference between investing in your business versus just buying back, you know, taken out that to buy back shares,

**Dave**

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right. Yeah, that's a great point. And, you know, the company could have used that to, I don't know, make the company more profitable, make it more efficient, by better systems to improve the profitability, which in the long run will benefit the shareholders more than just buying back shares. Because it's, it's kind of a false, it's a false sense of this company's growing earnings, because all they're really doing is reducing the share count or not actually growing the dollar amount of the earnings.

I remember, that was one of the things that was going on with Caterpillar and Boeing two years ago that the share count was reducing which the CEOs were doing to Boost Earnings per share. And but they're doing it through debt and other means. And they weren't actually growing the bottom line. And it looked like the company was growing earnings, but they really weren't so and how that turned out for Boeing and some other products. Not so great. Not so great. You know, the whole was it the 737. Is that is that the plane that's had all the

**Andrew**

7:37

troubles? Was that the 737 max? Yeah, that's

**Dave**

7:41

the one that's had all the troubles that certainly has set the company back a lot. I don't know if those two things are correlated. And I don't know, bullying at all. So I wouldn't speculate on that. But yeah, it has not voted well for both the caterpillar and Boeing CEOs who lost their jobs, or those once the board figured out what they're doing out there when, yeah,

**Andrew**

8:02

well, in defense of these companies, at least, they can always turn. I know turnarounds are hard. They're hard. And they're rare, but they can be done. And they're done all the time. So maybe the next five years for some of these companies can be better than the last. But if you're a shareholder and Starbucks living through that, yeah, you got some returns, but they were not as great as a lot of other companies were

**Dave**

8:24

right. Yep, exactly. And you could have avoided some of these things by just kind of thinking about or in following some of the guidance that you're providing there, especially related to debt and negative earnings, for sure.

**Andrew**

8:35

Well, and you know, it's something where, if it's a red flag, it doesn't mean I'm never going to buy Starbucks ever again. But it's one of those, you kind of know that, then maybe you come back to the story and see if things have changed. I mean, I did have a company where to kind of break that mold, a company called Lam research, they basically doubled their debt to equity ratio. And that was sitting on a really nice profit. So I sold thinking I was so smart. And turns out they were being aggressive to reinvest in their business, and that stock doubled, maybe tripled since I sold it. So it's not to say that, yeah, every time a company expands their debt to equity, that's a bad thing. But it's something you want to look deeper into, because it could be a red flag, right? Yeah.

**Dave**

9:24

Yeah, totally. I mean, that. That totally makes sense. I think one of the things that people should remember when we're talking about red flags, these are things that you want to ask questions about. So if you discover, like Andrew was talking about debt to equity, easy for me to say, when the debt debt to equity grows, that much, you want to ask questions, doesn't mean that necessarily it's automatically bad and you got to sell it right away.

But it also means that you do need to ask some questions and try to determine get to the bottom of why that is maybe look at historical performance and see if these this is something that that CEO has done in the past and has worked out well for them, you know, then that might help ease any concerns. But the flip side of that is it's not historically relevant, like it's never happened to them before. And you see this in conjunction with other things like that, like the earnings going negative, and growing the debt to equity, those two combinations can be really dangerous,

**Andrew**

10:19

really dangerous. I hope I'm not beating a dead horse here. But I kind of want to talk about one more example. Sure. I mean, there could be a million a million reasons why a company's debt equity expands one of my favorite investments that I still have apple and their debt to equity has, if you look at the history of that, it's consistently gone up, up, up, up, up. But if you get some context about their balance sheet, back in 2017, they had almost $200 billion in long term investments, excuse me. So in the same way that you and I might have, you know, $200, in stocks, they had similar types of investments that they could use at any time.

So since 2017, to 2022, they've sold that down to about 120 billion, from almost 200 billion. And they bought back a lot of shares, paid some nice dividends. So that's a completely different story, though, right? Because they had a big cash pile, and they started using it. But it's not like they leveraged their future, right to spend that cash pile does not mean taking on interest payments on debt. It's two very different scenarios. And the shareholders since 2017, who saw apples that tech legal up up up, did very, very well. But the company wasn't mortgaging their future to do the buybacks. They were really just basically getting the benefits of all the cash they had piled up beforehand. Right. So those are two kind of similar but very different scenarios when you look at a whole Starbucks versus Apple five years ago.

**Dave**

11:53

Right? I think I think it kind of illustrates how you really have to, sometimes it's good to look at the metrics, but it's also good to look at the balance sheet to, to put it in perspective. So instead of just looking at the, if you see that the debt to equity keeps going up for Apple, you might automatically just disqualify it as an option. But if you look at the balance sheet and see that their piggy bank, if you will, is dwindling, because they're using using it, because they've they've worded it all these years like a squirrel and now they're gonna start using it, that's to benefit the company, as well as benefit to the shareholders, as you can see through the return. So it's, it's not always apples to apples, no pun intended.

But I think it's always good to look beyond the metrics. Its metrics are great. And they're a great shorthand, but we always have to kind of remind ourselves, that's what they are as our shorthand, you need to kind of look a little bit beyond that to make sure that you're not missing something important, good or bad.

**Andrew**

12:46

Yes. All right,

**Dave**

12:47

now that we've thoroughly exhausted the whole debt angle, maybe we could talk about Goodwill, what are your thoughts on goodwill?

**Andrew**

12:56

Okay, maybe I'll start with an intro the goodwill so people who are more beginner can follow along, when a company buys another company, the difference in the purchase price and what the company values on the books is goodwill. So let's give an example Microsoft is in the process of buying Activision. If you're familiar with Activision, they're a video game company. They have pumped out games like Call of Duty Blizzard games, those are all Activision. So if you think about a company like that, and you compare it to like, let's say Walmart, for example, Walmart has these huge stores, they're putting all this money in those stores, the parking lots, the lighting, the inventory, all this stuff, it takes a lot of money to make a Walmart store.

So they're, when they're putting all this money into their store, it shows up on their balance sheet, you take a company like Activision, and they're really spending money on a lot of developers, they don't have these huge stores, these huge employee bases compared to somebody like Walmart. So they spent a lot of money to but a lot of that doesn't go on the balance sheet. Okay, that's why does that matter? Because Activision is still worth more than whatever, it's on its balance sheet.

So if they have some cash, they have a few office buildings, whatever all of those assets add up to That's how much they're worth on the balance sheet. But then however much Microsoft's paying for Activision. And I think it was something like 90,000,000,090 5 billion somewhere in that range. That difference between let's say, if it was, you know, I can actually do the same. We can travel through tos. That's really, exactly, yeah, you take their assets 27 billion, take out their liabilities. 8 billion, you have 19 billion in equity. So that difference between the 90 billion or so that Microsoft's paying the 19 billion that's an equity.

That difference is the goodwill and that's how a little bit confusing, but that's just the way the accounting works. And that's how you balance out the financial statements. So that might Microsoft can keep track of how much money it has spent on acquisitions. And so it is a very good thing to look at. Because if Microsoft were to have overpaid for a company like Activision, then that goodwill could be suspect. And that could be a red flag. So how would you look at a goodwill number and tell if it's suspect or not?

**Dave**

15:23

I think, well, it'll depend on, it depends. I think a lot of it will go to what kind of companies have choices to make with capital allocation. And one of the choices they can make is they can acquire other businesses like Microsoft is looking to, to acquire Activision, Microsoft has a history of buying other companies. And for the grand, great majority of those, they've done a really good job of assimilating those companies into their ecosystem, and it turning out really well for Microsoft in the long run.

And so knowing that looking at the Goodwill, for example, of Microsoft, I would probably be a little more comfortable with their level of goodwill on their balance sheet, compared to another company that maybe doesn't do acquisitions, if at all, or has not had a good history of doing them at all, are doing them well. And when you see that kind of thing, if you see it spike, all of a sudden, they don't have a history of it, all of a sudden they do it, you have to keep in mind that most m&a activity, the studies show that 80 to 85% of most m&a activity doesn't work out the way that they hope, and whether or not your company that you're investigating or that you own, if they all of a sudden decide that they want to get into the m&a game, then mergers and acquisitions by the way, if they get into that game, and they start buying other companies, that could be a red flag, because all of a sudden, you start to see them piling up all this goodwill on their balance sheet. And that could lead to problems down the road.

Maybe not initially. But once the honeymoon phase is over, that could be something that could be problematic. And a lot of it depends on how the companies do it. There are some companies that are you would call serial acquirers. These are businesses that acquire a lot of businesses consistently constellation software is one that immediately springs to mind. But other ones like Danaher or Thermo Fisher, that are in the life sciences industry, they have a history of acquiring a lot of companies, and have done really well with those for the most part over the years. So that in and of itself is not problematic.

But if you see Texas Instruments, which doesn't acquire a lot of companies all of a sudden go in as buying spree, then that would be cause for concern for me, because you would ask yourself, Okay, a, are they set up to do this? Can they afford to do this? And what are the impacts to the business over a long period of time? And that kind of weeds kind of the idea of impairment? And maybe you could kind of touch on that and maybe how that impact. So arising goodwill could be problematic is problematic because of kind of the impairment idea.

**Andrew**

18:11

Yes. So I guess to make it as simple as I can first and then talk about the intricate joys of goodwill and accounting impairments, right. Basically, the the risk is if for Microsoft. And I was wrong, I was getting the share price mixed up with the market cap. So they're really buying them for 68 billion, only 68 Apple 10 billion off a risk or Microsoft paying 68 billion for Activision is what if Activision was really worth more than four, it's really worth only like 40 billion or 45 billion the company doesn't realize that till after, so what have they done, they basically blown 25 billion that could have gone back to reinvest in Microsoft itself, or could have gone back to shareholders me in the form of dividends or buybacks.

So when you see big goodwill, the worry is not that there's like a big number. But the worry is that what it will tell us is that in the past, the company has taken money that they should have spent more wisely, and they blew it on the big acquisition. And unfortunately, you don't know if that's the case until after it happens. And so the market tends to react really strangely to when it happens, because actually, if something's impaired, you can actually see the stock go up, because I guess the market already figured it out six months ago or a year ago, but what an impairment is, is basically, let's say Microsoft found out that you know what, Activision was only worth 20 billion less than what we paid for it.

So they would have to make the books balance. You would have to take 20 billion off of their books off the balance sheet because that's the 20 billion in assets. That's, that's not actually really there. Because the company's not worth that much, you take that 20 billion off, and then they charge it to the income statement, it's becomes a loss. And so you got a negative income for that year. But again, it's a weird thing, and doesn't really make sense. Until you think about it kind of deeply. It's not that when they write it off, they're losing the money, it's up, they lost the money when they bought it. So like, if I were to buy I hate that we always pick on the same companies. But if I were the bike peloton two years ago, and then today, it keeps going down and down. I really lost the money when I made the buy, it's not so much what's happening from day to day, it's like you just you, when you pay too much, you pay too much. And there's no going back from that, right.

And so that's what happens with companies too. And when you have an impairment, it's not so much that the future is going to be worse. But to me, it's a signal that says, Yeah, management didn't do a good job in their last acquisition. And then if you have multiple impairments, it's like, okay, management has a track record of not making good acquisitions. Well, it's weird, because I don't think impairment gets as much attention. As far as when it happens. There's a news headline, and then investors react either positively or negatively. And then they kind of move on. And then they almost like disappears from the financials, like it just turns into this mist, or it's like, never happened. So it's one of those really weird things.

And that's why I think, one good way and you said that so simply, is to look up the goodwill. And if it all of a sudden expands, then maybe a company on the buying spree shouldn't be doing that, because they don't have a good track record of doing that. That's one way to look at it. There's a couple other ways you could kind of sniff that out. But I was curious if you had any thoughts on that. First,

**Dave**

21:47

I think the way you explained it was, you know, very clear, and I think impairments especially I liked the part where you said, you know, especially if you see multiple impairments, especially in a five to 10 year frame, and you start seeing a bunch of impairments, that is a sign that management is everybody makes mistakes, right? I mean, the buff dog is, you know, he's admitted he's made plenty of mistakes, buying different businesses or investing in different companies. So that in of itself is not a death knell or anything of that nature. But if you see a lot of them, then that could indicate that they don't have systems set up to buy other companies, they do a really poor job of due diligence, or they're just making bad decisions, you know, maybe a board of directors isn't preventing the CEO from pulling the trigger on these things. And maybe it's more ego driven, than it is economic driven.

And they're just all indicators that maybe this company being led by this particular person may not be a good fit for you as an investor. Because if you know, every time they destroy value in that respect, that's value, you have to wait another 510 years to realize, because of the power of compounding, and if you're my age 56, and the guy cuts you off at the knees, and you know, you don't have 30 years, you know, to go. So it's a harder place to be. So it's something that I think people need to it needs to pay attention.

But yeah, I agree that the stock market the media, once the impairment goes, it's like, once a new cycle moves on, everybody kind of forgets about it. And it's like, okay, whatever, and it's all relative to us, the company generates 30 billion a year in revenue, and it's, you know, half a million in impairment. Okay, you know, it's not that big a deal. But if it's like was at AOL buying or no Yahoo buying AOL, and then you know, turning around and having, you know, for, I don't know, 100 billion, or whatever crazy number it was, and then turning around and selling it for like 10, those kinds of things, those are much bigger, moving the needle kind of things that you really want to think about before it all goes back to, what are they buying, how much are they paying for?

Is this unusual for them and the goodwill rising on the balance sheet, and then thinking about the potential downsides, I know TelaDoc gets a lot of grief for an investment they made during the height of the pandemic. And they ended up having to to impair most of that purchase as well. And so I know it's hurt their financials as well as their stock price. It's not a company I follow very closely, but I have seen some news snippets about what happened with them. So it's definitely something you want to keep track of and be aware of when you're analyzing the company,

Andrew

24:31

to your point to like, stuff happens, right? If you just happen to have business operations in Russia when they decided that oh, this is all mine. Now, you took impairments on that and right, equal forgiven management for something that's out of their control. Right, of course. Are there any ways that you can kind of sniff that out? As far as it's tough, right? I mean, do you just kind of look at the Goodwill and then to see the changes? goodwill and then also the relation to isn't really just changes and goodwill,

Dave

25:04

that's for me, it's probably a combination of two things, it probably would be changes in goodwill, and changes in percentage of total assets, elf, the total assets of the company, because if goodwill becomes an increasingly bigger part of the total assets of the business, and that's not really their business model, let's take a company that I was looking at the other day Fastenal, they sell fasteners, super sexy company, right, but the majority of their assets are made up of inventory and accounts receivable. And if all of a sudden you see that being, I guess, diluted by this expanding goodwill, that's not really their business model.

And so that would be a cause for alarm, because not only is the goodwill going up, but it's also skewing their total assets. And assets are what really drive the growth of any business. And so goodwill, if it's the purchases aren't performing, then that's going to affect the business as well. But those are I guess, the two things I look at.

Andrew

25:58

Yeah, I mean, but it's not easy. It is not easy. It's I mean, we're kind of almost venturing into a crystal ball territory here. A little bit, mine's much you can only so much you can do something you could do, though, as an example, when CVS bought I think it was at they bought one of the big insurance companies. And I remember looking at, you could still look at at those previous financials, and then compare how much CVS purchased for them.

So I didn't make at the time, you know, I didn't buy CVS for different reasons. But at the time, you could simply look at at this annual report and say, Would I have paid that much for this company. And sometimes it can really be that simple. And it could be a reason to not buy if you feel like they're paying too much. Another thing I've started doing lately is taking like a 10 year history of a company's acquisitions. And if you look at the cash flow statement, they will tell you how much they're spending on acquisitions every year.

Yep. So if you were to sum that up, and kind of include it in a free cash flow estimate, I did this for Cisco, because Cisco is a serial acquire. They're just buying companies all the time. If you're kind of like the same way you deal with capex, like that's money that they spent, so it's not available for us anymore shareholders. So if you adjust the free cash flow the same way and say the cash on acquisitions has already been spent, so we're just not going to count it. If it turns out being good for the company. That's almost like icing on the cake. So that's how I do it. Sometimes if I see a lot of that compared to like this is just a company that always acquires then I will bake that into my estimates. So that if there's an impairment there, lots, okay, I already assumed that money was going to get spent. Right. And that could be one way that to kind of deal with the risk of goodwill impairment.

Dave

27:49

Yeah, that's a really good idea. Yeah. Including, especially for companies that do buy a lot or regularly doesn't have to be huge amounts. But if it's a regular way, then it's probably something you should account for. That's a great one.

Andrew

28:00

Yeah. Mobizen I mean, Mobizen trumpets that idea a lot. But in the sense of when you calculate ROIC to include goodwill into that, because it's a part of a lot of companies. Strategy,

Dave

28:15

right? Yeah, yeah, exactly. Exactly. Are there any other red flags that you would consider or think about when you're analyzing the financials of a company?

**Andrew**

28:26

Well, I guess speaking of ROIC, our favorite topic. If you start to see that ROIC go down, or sometimes what can make ROIC go down as margins coming down and gross margin coming down?

**Dave**

28:40

If those things are coming down consistently, that could be a red flag for lots of reasons. Yeah, for sure. I guess what would be one reason why gross margin contracting or coming down would be of concern.

**Andrew**

28:54

We talked about this maybe six months ago, but I'll just bring it up again. So you had a lot of companies throughout the pandemic and throughout the after effects of the pandemic dealing with a lot of inflation. So if you are a company who is not able to raise your prices to counterbalance inflation, well now you have gross margins are shrinking. Because the expense side cost of goods sold the expense side that you need to manufacture your product. You got to ship your say your target or somebody you got to ship your product from China.

That bright cost is now so much more to get across the Atlantic Oceans Pacific Ocean, it's so much more so if the customers are kind of balking because right now they're kind of pulling back. Now you have costs going up revenue not keeping up with that. So your gross margin will come down. And that's just going to trickle all the way down. All the way down to profits and then all the way down to the cash flow that is left. And so if there's less cash flow, the company can't reinvest in their business. As much they can't give that money back to shareholders as much, and you're just going to generally have less return as a shareholder. And that all kind of started from the very top like that.

**Dave**

30:11

Right? Yeah, that's a great example, when you start to see gross margins contract, could that also be a sign that maybe the boat is being attacked? Or conversely, that maybe you kind of mentioned this earlier, that maybe the company doesn't have pricing power?

Andrew

30:26

Right? That's a good one similar but different, right. And I, like hesitate to use this example, because I think Tesla's gonna be a great investment for a long time. I'm not in Tesla. The reason?

Dave

30:36

Yeah, I was actually going to bring that up. Well, I saw it briefly. So I haven't read all the details. But Elon Musk lowered prices this last quarter, to try to spur more buying of the, and they saw great revenue growth, it was 47% on the revenue growth, which is, for a company that size is kind of ridiculous, you know, what the revenues that are producing so that I mean, that's amazing. But the flip side of that is that their margins tracted, gross margins fell at their operating margins fell and their net income fell.

And I think they might have even lost money in the quarter, I'm not sure as far as like the income statement, again, to hold my feet to the fire because I didn't read the whole thing. It was just I just saw kind of a brief overview of it. To me, it might indicate that maybe they don't have as much pricing power as people originally thought. And it also could be that their moat is maybe you know, the moat that they did have it may be getting invaded by all these other car companies. I have no proof of that. And that's complete speculation on my part, but that that would be something that I would you know, if I was a Tesla investor, or was considering investing in Tesla, that would be something that would be it would give me pause, like, I would want to see those results go back the other way,

Andrew

31:46

I would agree with you. I don't think that's a crazy statement. I mean, I'm not saying they don't have a mo anymore, but I would say it's probably weaker than it was simply because there's now so many more electric vehicles out on the road, but they're actually pretty decent compared to like three years ago, Tesla was almost like the only decent, Evie in town. Right. So that's what makes the stock market tricky is there's shades of grey with moats and the financials that will result in those different strengths of Moats.

And so if you're buying in the market thinks that this is the greatest moat in the world, and things like Tesla is going to double every year, you're not going to do good, even though it's a good company. On the flip side, if you think Tesla's moats pretty good, and the market thinks the moats pretty good, and that they might have reasonable growth, the market saying that you're saying that you'll probably make a lot of good money on that investment.

So that is really all relative. And that would be a sign, you know, to your point, more people are coming in kind of flooding that space, that can bring down gross margin as you're maybe making rebates or cladding on some of those price points. And that can definitely impact I guess, in that case, would you consider a red flag for Tesla? Or you would say it depends.

Dave

33:01

Yeah, I think I don't know that would necessarily be a screaming red flag. But it was certainly make me a note to myself, I need to check this next quarter or the next six months or the next year to see if this is a one time thing, or if this is something that continues because if it continues, then that could be a problem. You know, there are other factors coming into play, I know that the cost for materials, ie batteries has skyrocketed recently. So I'm sure that's having an impact on their costs as well.

But those are all just things when you're analyzing a company that you want to ask yourself questions and see if you can try to think through any of the possibilities, you know, the price decreases. Were something that Elon very loudly announced. And so it was not a surprise to anybody that it shouldn't be a surprise to anybody that the gross margins would contract because they're selling cars for less money. They're just not as big of a gap in margin. So I mean, that makes sense. But if he has to keep doing that, then that could be a sign of something else to come in, you know, like anything else. Those are things you just want to keep an eye on and keep track of, because of the company is not as profitable as it could be, then that could be a problem too.

Andrew

34:17

Very well said.

Dave

34:17

Doesn't mean that companies going out of business. No, not at all. Please, by all means, do not try to short it.

Andrew

34:25

Seriously, note to self don't short, a company that grows at 70 80% at a time. Yeah. You know, in revenues. Yeah, don't

Dave

34:35

do it. The cult of Elon is strong,

Andrew

34:39

strong, somewhat of a fan. All right,

Dave

34:42

folks. Well with that we will go ahead and wrap up our show for this week. Don't forget to subscribe to the show your preferred podcast app if you enjoyed our little show. If you would kindly consider giving us a review. It greatly helps our show. And don't forget to browse the incredible mobile materials we've created for you at E investing for beginners.com Last week continue growing your knowledge as in investing for beginners insider with insights and educational tips delivered right to your inbox for free. Sign up today. And with that, we'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 and we'll talk to you all next week.