Simon Erickson of 7Investing Joins Us to Discuss Innovation and Growth Stock Opportunities

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Dave

0:00

All right, folks, welcome to Investing for Beginners podcast today we have a very special guest someone I'm super excited to talk to. We have Simon Erickson. From 7investing. He is the founder and CEO of 7investing great podcast as well as a great newsletter and website lots of information he shares with investors, super smart guy. And as he puts it, a self professed nerd and a bit corny.

So we're going to have some fun today. And he has seen Frozen more than I have. So that's saying something. So Simon, welcome to the show. Thanks for coming on and joining us today. And we're really looking forward to chatting with you,

Simon

0:34

Dave. I'm really excited to be here excited to talk about stocks excited to make some bad puns out there. And I think the Oh runner for me is 44 million times out of frozen.

Dave

0:44

Yeah, I don't know if I've seen it. I said off air I see the more maybe not frozen as much but Mallanna I'm definitely way above that. It's on permanent loop in my head for sure. The soundtrack. Awesome. So I guess maybe to start, could you give everybody like a 30,000 view of maybe your background, your history, you're one of the 8 million people that has worked for the Motley Fool and are and I feel left out because we never have but maybe give some background so people understand how smart you really are.

Simon

1:09

Oh, thank you, Dave, I appreciate the childhood I think that my paycheck is always dependent on reading the tea leaves, as I like to say it every job has been predicting what the future was going to do. And then try to quantify that as much as possible. Right. So I was a direct sales rep in my 20s.

I was the guy that was always on a plane or in the car out shaking hands trying to do new business. But it kind of gave me this firsthand look at what was innovative, you know, whether it was agriculture, whether it was personal care, whether it was oil and gas for every market wanted to sell new things and capture higher profits. And that kind of led me to the investing game, right? It said, Okay, how can we actually take those profits and put them into new projects for a company and went back and got an MBA to pursue renewable energy career here at done at Rice University, and came out and then worked for Chevron and the Renewable Energy Group, right.

So we kind of put together the business plans for solar demonstration projects, for a bunch of other renewable energy and biofuel projects, which went all the way up to a very deep pocketed organization that was able to fund a lot of that development, pretty exciting. And then, like you mentioned, worked for seven years after that, for the Motley Fool ran a service for them that was kind of focused on innovation, whether that was what was going on in China, or AI, or cloud computing, or whatever it might be going on kind of finding these growth, stock opportunities that were putting their money into what would produce future cash flows and future business lines.

And then in March of 2020, he said, you know, let's, let's go out and be the entrepreneur, let's go take the leap of faith. And I founded seven investing to really empower individual investors to make better investment decisions. And so not just writing content, but also making stock picks. And we are now publishing our seven best ideas in the stock market each and every month at seven investing.com. So and here I am today, you know, still watching frozen and still making stock picks every day.

Andrew

3:00

Is there a story behind the number seven in there, there's a bunch

Simon

3:05

of them kind of a whole bunch of stories. One, I just kind of liked the tone of it being lucky, you know, anybody who plays craps in Vegas or anything else like that, there's a tone to it, I've always wanted to see the seven natural wonders of the World Two, down five more to go. And then also, you know, the idea of kind of having seven stock picks with a full string seven advisors, it kind of was the right name, I think to fit with a lot a bunch of different things out there.

Dave

3:31

That's cool. So the seven investors, I'm guessing the people that are coming up with these ideas, I'm guessing that you kind of have a wide range of different kinds of influences, as well as styles. If you had that, you know, categorize it, what would you say it would kind of fit into?

Simon

3:47

Yeah, we have a kind of a principle that we follow that we say that investing is personal, that Dave, you and Andrew and myself are all very different investors. And part of what we're trying to accomplish is to get people thinking about what type of investor they are, rather than just saying, hey, here is the word of God, this is the only stock you should be buying right now. And so we try to put together a very diverse team that kind of puts this buffet of options out every month. But it's a very informed opinion. Right, Dana Abramovitz, one of our advisors with the team, you know, she has a PhD in biochemistry. And so she's really looking at clinical trials.

And a lot of these are smaller name kind of biotech companies. But she's really excited about the science of the new approach that they're taking. That could be different than a nearby Mahanta. He also has a PhD. His is in computer science, but he's really looking more at AI. How is AI empowering a lot of these businesses that are using the things that we're kind of playing around with the GPS and of the world and such, but they're actually using those to for business cases that are innovative.

And that's very different than Luke taller than Chris, not by Carsten and myself and we have five advisors on the team right now that are looking in very different corners of the market. Because really, investing is a personal thing you can figure out what type of investor you are What you're personally most interested in, Andrew

5:02

I guess that lens, the question, what type of investor? Are you? And are there any unique approaches you've taken? When it comes to constructing your portfolio?

Simon

5:13

My background would suggest that I would be an energy investor on down here in Houston and kind of know oil and gas, and no renewables and all of that. But interestingly, Andrew, I'm actually more of a semiconductor investor. Unexpectedly, I kind of really got into chip stocks and all the innovation that was going on with machine learning, it really is something to this right now, you know, we say AI, it's the AI a lot.

You can almost count on most conference calls, you have this checklist of how many times I was gonna say, right, how many times a Jensen bull I'm gonna say this, but there's something to it. And really the underappreciated part of that for many years was the hardware, the chips themselves, you know, how are you designing these? How are you manufacturing these, you know, how powerful it was Nvidia and AMD going to be? And that was really, I think, more than anything, the industry that caught my attention several years ago, but I like to dabble in everything, right? Whether it's space economy, whether it's biotech, whether it's semiconductors, it's a big world with a lot of stocks out there.

Andrew

6:10

And that's for sure, do you have a part in that ecosystem that you favor more than the others? Obviously, there are the manufacturing side, there's companies that do just the design, and then you have all the companies in between? So do you have a favorite? And then does that also change over time? Depending on the environment, or the economic cycle of the various semiconductor players,

Simon

6:39

there's kind of to oversimplify this three parts of the value chain, right? Are the three parts of the industry, you've got the people that are using the chips for whatever they want to probably their own software applications, you got the people that are designing the chips, and you got the people that are manufacturing the chips. And so let's use GPT as an example, right? You then the GPT, you type in, you know, what is

Andrew and Dave, tell me about Andrew and David, the investors for beginners podcast, and it spits out open AI spits out, you know, an answer for you.

That is powered by Microsoft Azure, right? The cloud computing. And Microsoft is using this to continually refine those algorithms to use the AI. So that's giving you the most accurate answer they possibly can. And no surprise that wants to integrate those into its own enterprise software line, whether it's Microsoft Excel, or Outlook or anything else, it's gonna copilot using AI now to do that, behind the scenes of those data centers, it's buying chips from Nvidia, it's buying, you know, the one hundreds of the h one hundreds, you know, the AI optimized chips that NVIDIA has designed and continues to improve with each iteration so that the amount of power they're using to do this super complex computing that is machine learning inference, that's required for TPT to give you an answer so quickly, they're buying a ton of those from Nvidia right now, as are all of the other cloud data centers.

And then of course, Nvidia is not manufacturing the chips themselves are using Taiwan Semiconductor to do that. These are the fabs that are building multiple billion dollar facilities all across the world, that are super, super competitive, not only Taiwan Semiconductor, but Samsung. Now Intel is in the foundry race. And the goal is, of course, to have the most optimized production of the most cutting edge chips, with the smallest nodes down at three nanometers or below now, to candle all of this cutting edge computing that's going on.

For years. I think that designed to answer your original question, I don't think design has been the most lucrative look at invidious profit margins look at AMD is profit margins, because they can just continue to iterate the designs. They want to make smaller and smaller nodes for the AI chips into designing. But it's incredibly profitable for them. And once you start getting some bigger and bigger contracts, that's been the investments that have been the 10 baggers, the 100 baggers, in videos of the market, but I also think there's something to be said for the Taiwan cities and maybe even the Intel's of the world that once they get embedded, it costs a lot of money to build a fab that can produce those chips, and there's a lot of IP that goes into them too.

So they are firmly embedded as well. And those can be fantastic long term investments because they just keep paying out dividends paying back, you know, through share repurchases, rewarding their shareholders for decades. And again, it's kind of what kind of investor Are you? Do you want to shoot for the moon you want to go for the companies that are designing cutting edge chips? are the companies that are empowering their own businesses through those are the guys that are manufacturing a lot of ways to invest in silicon? Yeah, that's

Dave

9:34

for sure. You know, I have partaken in some of that I own Texas Instruments, Taiwan, semi and Intel. What are your thoughts on kind of the cyclicality of that industry and how investors can maybe think about how they not market time but how do they think about investing and maybe balancing their portfolio with that because it is a very cyclical industry and it's tough if you don't understand that.

Simon

9:57

It is it normalized. As overtime Dave, you know, if you kind of look over five to 10 years, you don't worry about so much of the ups and downs, even though those are certainly there. When you're kind of going to replace a whole bunch of chips to modernize your data center, you don't just kind of do it. We're like, Oh, I'm gonna I'm gonna draw it by a little bit, you know, every quarter and trust me that you say, Okay, we're deploying this, we want the volume discount, let's get them all in there as much as we can. Right? If you want to modernize your data center, make it more efficient.

You go out and you buy AMD chips. If you want to buy something for latency as minimal as possible, because you're gonna design the metaverse, like Mark Zuckerberg wants to do you buy combination of CPUs with the GPUs from Nvidia, and 1000 different varieties of what you want to do out there. And so you do see kind of these, you can look at the cyclicality and the financial results of a lot of these companies. There's a lesser known company in this industry called Super microcomputer, as MCI is the ticker on that one, but they go out and they install the servers, right?

So they're actually going out there using and videos, chips, installing the coop cooling, the networking, you know, they're putting the right combinations, in the racks that they're putting into the servers of the data centers for these companies, you can kind of see sometimes they have these spikes, these incredible spikes when Mehta platforms places a huge order. And then they say, oh, you know, we're down 10 or 15%, year over year, but a reminder, dot dot, dot, this is cyclical, and we didn't get as huge of an order like we did last year. But again, if you're looking 510 years out, I don't think anybody's expecting the large language models or AI, or all these chips are going to slow down. This is still early innings of a very long term trend that we're seeing

Andrew

11:33

now. And you mentioned AI, actually, this morning, I saw my portfolio, one of my stocks had popped. So I was like, okay, it must have been a great earnings. And then I looked at the press release. And within maybe the third sentence, they talked about AI and I was like, That explains why this time. I all I had to do was say i

Simon

11:52

It's interesting, Andrew, I mean, there's the hype cycle is the enemy of the long term investor. You think that hype is sexy, and that it's good, but we don't want to fool ourselves that hype is good for the more times you see some of these terms in the headlines of the financial media. It's actually a red flag for investors. I mean, think about how hyped cryptocurrencies got there for a while Long Island, iced tea rebranded its name to Long Island blockchain. You know, it really happened and the stock like tripled the day that it did and then came right back down. I mean, cannabis.

You remember when everything was a pot stock, we were all gonna make billions of dollars of pot. I mean, maybe that still eventually happens. But it was certainly overhyped. There's a case to be made that you know, 5g, and even pockets of AI is being overhyped right now. But as the investor, it's very dangerous to just go out there and do minimal research and just invest in what you think is sexy, because a lot of times the expectations are far too, baked into those stock prices, and they underperform what the market is expecting from them.

Andrew

13:03

So how can a beginner who has not seen various hype cycles? How can a beginner avoid some of that? Is it What's your take on that?

Simon

13:12

This might be oversimplifying the market and investing in the stock market in general, but I think it's kind of a combination of four things. The first is the story. We talked about tam total addressable market a lot we talked about, how big of an opportunity can this be? That's certainly a part of it. You don't want a company that serves a $100 market? Because even if they get all of it, that's only 100 bucks. Right? The first part is, you know, how big is the market? Is there a big enough market that is underserved by the incumbents today that can be grown into?

And the second piece of that equally important is the market being large enough is the execution, you know, as a leader of a new company that has a vision to take a certain share of this market that's developing? Are you executing and doing what you say that you're going to do? Do you have a CEO that's always over promising and under delivering? Or do you have a CEO that's under promising and over delivering? And this has been Apple for the last 20 years, Apple always beats its estimates, and it's gotten such credibility in the market. I mean, companies that execute well, are equally as important as companies who are serving the right markets.

And then the third piece is the financials. There is still financial analysis that's important in investing. You look at margins you look at return on invested capital, ROIC. Dave, let's say ROIC. 20 more times, right? Yes, John, but it's the company, you know, doing not only what it says it's going to do, but also generating profits for investors. And then the fourth fourth piece, fourth piece blended in with all of those is valuation. Are you getting a overly hyped stock that is that has already got all the expectations baked in, or is there something missing in the stock price to data you can actually get in when the stock is undervalued and get a good 100 200% return or more, just because the market does appreciate what you see in the shares.

Dave

14:57

That makes a lot of sense. So maybe coming back Back to that valuation piece. I mean, I like all four of those pieces. But the valuation one kind of speaks to me is particularly when we're talking about semiconductors in Nvidia. Nvidia had some really good news recently. And you know, with the mention of AI 757 times and their earnings call, the stock price has gone. How does at the beginning or a newer investor work at a company like that and not go? Well, hey, that's the hottest thing out there. That's what everybody's talking about AI and they're the leader? Why can't I just jump on that bandwagon right now at the price that it's at? And, you know, why would I not want to do that?

Simon

15:35

Yeah, maybe the first step would just be kind of combining those first two, right? Is the market big? And are they executing? Well, you know, one of the reasons that the stock pops so much here recently, earlier this year, if anyone listening to this show, remembers invidious stock just went parabolic skyrocketed, became like the stock at 2023. And it was because they issued a guidance for an $11 billion quarter that was that was upcoming. And then they did you know, it wasn't like they were just kind of pulling that out of thin air, they had a huge market, that they were grabbing their share of they were executing really, really well.

And he had Jensen, formerly head of Nvidia, CEO of Nvidia, they were just like, yeah, there's an opportunity for our GPUs, or graphics processing units to reduce the overall power consumption, watt per teraflop trillion of floating point operations per second. I worry about those rabbit holes. Yes. But you know, the power consumption per performance was very low from these chips. And of course, if you're a cloud data center, if you want to do AI, you want to be able to do all these things. You want to have the chips and keep up with what you're being asked to.

But you don't want to be spinning, you know, an arm and a leg to pay for it. So it'd be I mean, how do you catch Nvidia at that point, you've got to have either a fundamental overhaul of all of the architecture very hard to do, we're in video just keeps getting bigger as this market continues to expand. And so again, you know, back to the original point of look for the big market, look for the company executing and then what's the secret sauce behind the curtain? Why is the Wizard of Oz able to pull this off, and it's typically because of the execution is founded in a sustainable competitive advantage, that can't be done by others very easily.

Dave

17:14

That's a really good point. And maybe we could kind of switch gears and talk about a couple other industries that I know you're interested in and Andrews interested in. And one of those is defense, and the other one is cell towers. So maybe you can kind of give a 30,000 foot view of maybe the defense industry and maybe why that's something that's interesting to you.

Simon

17:38

Oh, my goodness, yeah, maybe the 30,000 foot view is three words, right? Russia, China, Taiwan, very tense geopolitical situation in the entire world right now. And I don't think America or its allies are cutting back on the defense budget. I think that's something that's got to be out there. We've talked about hypersonic missile programs. And you know, just the response to those, it's getting pretty intense out there. And the US has committed to growing its defense budget for several years.

And there's only a handful of prime defense contractors, Lockheed Martin being one of them, Raytheon being one of them, a handful of others, that are going to keep getting those massive contracts, and then subcontracting out a lot of those programs. Lockheed as mission is a great one, because they really know what they're doing, right, the fighter jets, you know, everything that they've built, our programs, they continue to iterate on, they put X dollars into growing those programs and all of the people and the IP that they need to do that. And then they share out the rest of their profits with investors through dividends and buying back shares.

And this is kind of, again, that capital allocation piece, are you doing this really, really efficiently. We're this rolling defense budget due to global uncertainties in the world and geopolitical risks in the world. There's a benefit to investors in that. If you're an investor, and you keep getting those dividend checks, why not buy more and more shares of Lockheed right, compound your returns even farther? Because if you think this is going to continue, as I think that it's going to continue, you can really juice your returns even farther by buying back more shares that are paying you more and more dividends to buy back more shares over time. Great long term investment, Lockheed Martin,

Andrew

19:13

well, what's your opinion on how to determine if management and a company actually is a good capital allocator.

Simon

19:21

They'll disclose the discretionary spend of typically it's either a capital may step back companies when they pay all of their own operating expenses, and then any of the interest expenses if they need to serve as debt. They'll have free cash flow leftover or variations of free cash flow. Sometimes we call this adjusted free cash flow. Sometimes we call this adjusted funds from operations. What's going into the bank after you pay all of your bills? And that's kind of discretionary for management to say management to allocate however they want to, they might say, hey, let's boost the dividend. We got a lot of money right now. What do we do? Let's just pay it right back out to shareholders could be let's grow this program, right? Let's spend a lot more on this program that internally is providing a very, very good internal rate of return.

Could be, let's just buy back our shares. We think our stock is undervalued right? Now, let's go buy back a whole bunch of shares. And or it could be just let's sit on it, let's put it into the bank and just sit on cash, probably not the best option. But sometimes there are reasons you would want to do that. And so collectively, this option of what do you do with the money that's left over at the end of the day, we refer to that as capital allocation. The worst examples have been historically, companies that make bad acquisitions, HP lit a lot of money on fire back there years ago, by making acquisitions that did not play out well for it. Versus a company like Starbucks, who has done this very, very well.

And the partnerships that had signed and the repurchases of shares that it's made strategically, I would consider Lockheed and then also American Tower to be two companies that do this very, very well, they take it very, very seriously. They say how many new global towers that we're going to build across the world every year?

How much money are we going to put into acquisition to buy others that have towers, we know that we know how to do the permitting, we know how to make these cash flow machines out there. But at the end of the day, if you're a shareholder, you want a company that does that methodically. And so those are long term opportunities for investors that don't need the money after a year or two years, parked it for five or 10 years, because that's going to compound a lot for you.

Andrew

21:28

Yeah, there's no debate that the numbers for both of those companies have been extraordinary. You know, whether you put it in ROIC ROV, however, you're measuring that. So how does an investor differentiate between a company that's done well in the past? And how do you determine whether they're going to continue to do that? Versus companies that do well for a period of time and then kind of flame out?

Simon

21:53

That's a good question. Maybe it starts with our Is there a disruptive threat to the business itself, companies like IBM and Cisco and GE, were the kings of the stock market? years ago, they got disrupted by smaller companies that were doing things very differently than they were especially Cisco energy. You know, a lot of people are saying they're willing gas is being disrupted. Right now, a lot of people are saying the large automakers are being disrupted right now, for various reasons. But you got to kind of quantify, okay, is it company that's capturing all of these margins? And all of these profits and these cash flows? is Elon taking aim at what they're doing?

Right, or the greatest as Sam Altman taking aim at what the user is something that can disrupt that cash flow? From a really bright innovator? Let's first question. The second is, if not, how, are they growing their own business? Are you looking at a company that's got 50% margins, it's declining in revenue two to 10%. Every year? Altria cigarettes, I mean, those are really profitable businesses. But they're not growing, they're losing volumes every year, versus something like Microsoft, who continues to embrace the biggest trends that are out there to make its cash flow, cash cow even stronger. And then, you know, how are you converting all of that with the execution in the market?

And these these cash flows you're producing? How are you doing that, and the good of shareholders, if it's just sitting on the bank, like Apple just sat on cash for so many years, finally embrace the dividend, and that was great. Apple stock has done fantastic since they declared a dividend several years ago, because they were committed to sharing it in a way that was that was shareholder friendly. So kind of a combination of those, you know, you can kind of see is a business that's at the peak of its prime, is Cisco still going to be the largest company in the s&p?

You know, is Exxon still going to be this behemoth? Is this a, you know, is GE going to continue? I mean, there are signs that a lot of those cash cow markets that companies have siphoned profits off of for decades, sometimes you've got to see, Are they continuing to continue that momentum in the future? Or is there a Tesla out there that that's gonna gain share? And if there is, maybe that's a warning sign,

Dave

23:57

I love that idea. And it kind of goes to that idea of the lifecycle of a business. And I think a lot of people think that Microsoft and Google, for example, or Apple even, are going to be the top three, five companies, whatever forever. And history has shown that that doesn't always happen. And you can even look back at it, and 20 years and see how much the top 10 of the s&p 500 has changed in that time period. And so I think that idea of understanding their businesses where they are in their lifecycle and potential disruptors, you know, I don't know how many people saw Tesla coming for GM and Ford and Honda and anybody else. I certainly didn't. So, you know, I think understanding kind of the lifecycle of businesses and where they are, I think is crucially important. Yeah, we've

Simon

24:44

seen The Magnificent Seven, you know, the largest companies in the s&p today looked very differently than they did 10 years ago. Even that looks very differently than it did 10 years before that. We've kind of had this transition from you know, they're willing gas companies, you know, there's a giant you know, come But he said there were had access to natural resources that were just being used at work to kind of like every company was a data company, right data is the new oil, the Salesforce is of the world, you know, really came into him into the spotlight.

And then now when you look at Nvidia and Tesla, I mean, they have a fraction of the revenues that a company like GE did, or a company like Exxon did, or Walmart did. But you just see the execution of Elon is relentless, right? It just, you know, you kind of you get the premium because you believe that he's going to do what he says he's going to do. And I think it's going to be really interesting to see even 10 years from now, when you start thinking about, you know, what does 2033 gonna look like?

Is there gonna be an Vidya is still gonna be tests, or even they're gonna be disrupted in the next 10 years. Because wherever there's profits, that's where innovation happens, you've got to go after the where the profits are. A lot of those businesses, the AI, you know, the electric vehicles, really lucrative markets that is going to attract a lot of competition.

Dave

25:55

Yeah, for me, you know, that's one of the reasons why I like a company like visa so much is because, you know, they have these huge margins, they huge cash cows, and they have been for a very long time, but they are getting attacked, and they have been able so far to repel those attacks and things that were supposedly coming for them. And we're going to disrupt them, like, you know, by now pay later was going to up in the credit industry, and that has not proven to be the case.

And those of us old enough to remember, just know that that's something repackaged, that was popular in the 70s. So it's a little amusing. But anyway, that's one of the reasons why I like a company like VSA because they have a moat, but they've been able to defend it. And that's, you know, I think one of the things about investing is trying to determine what that competitive advantage is, and how strong it is it really,

Simon

26:42

yeah, that's a really good point is, you know, we say moat a lot. Maybe we incorrectly correlate margins to moat, we think of companies that are getting a 40 or 50% EBIT down margin is having a strong load. Yes, they're certainly siphoning a lot of profits off, but are they going to give that up over time, right, I don't think Visa or MasterCard has I agree with you, they maintain their moat, but like a similar business or a tangential business, Western Union, you know, probably has you know, remittance has moved. These terminals are where you always would go and you know, do those money orders. And you're kind of go in person. I mean, a lot of that's gone digital.

The other kind of FinTech companies of the world have taken a lot of share from a company like that Western Union, I still remember people pounding their hands on that, how strong and smote was right? I don't think so. And then you got Bitcoin, I mean, nobody knows what to think of Bitcoin, it's out there. It's got its ups and downs, some people think it's overly hyped. And it's done. Some people think it's still the first inning that's just getting started.

But you've got to acknowledge that crypto and Bitcoin and all these tokens. There's a lot of people out there that are really committed, committing their lives to you know, making these these cryptocurrencies and these tokens, you kind of carry on the back of your mind, you know, is this a company that's immune to that? Or are they going to embrace this? Or are they going to be disrupted by this? Right?

Andrew

27:58

So it's, I guess, it's clear that investors can't just buy a company and then stick their head in the sand. So you mentioned briefly about your seven investing service. Tell us a little bit more about that. How do you keep average retail investors informed?

Simon

28:14

Yeah, thanks very much, Andrew, is the whole reason we wanted to start seven investing was to help to empower individuals, you know, to say, you know, yourself better than any financial advisor will know you, you know, you know, yourself better than the s&p 500 index will know you. But you maybe are a little bit gun shy about jumping out there and buying stocks. It's a big world out there. I would like a co pilot to go out there and do some of this research for me, and give me some actionable ideas that I can go out and start investing in.

And I know this works, because it worked on my own father, who was totally averse to the idea, you know, say no, I've got people to handle this for me, I don't want to invest in individual stocks. Great, Simon, go start your business, but I'm not gonna do it. And now every month, he calls me after our picks come out and says, hey, guess what, I'm buying this, I bought your pick, I'm so excited about it. If you're gonna work on him, it could work on anybody. But the point is, you know, we want to empower people to start reading the reports over time building competence, and what do I look for, you know, the same things we're talking about on this show, you'll start learning those and educating over time and wisdom compound just like returns compounds.

If you get a little smarter every month, you're gonna make a little bit better of a decision every month, we start writing down the reasons you're buying a stock and then looking back not only on your mistakes, but your winners every month you're gonna get better at and then before long, you're going to start saying, you know, why am I paying so much money for someone else to make these decisions? On my behalf? Why can't I just go out and do this? I know myself I know my risk tolerance. I know what markets I want to be in.

Now I understand it understand AI now I understand biotech. I mean, like there's a world of knowledge out there for us to individually explore and figure out what types of investors we are. So seven investing has stuck to those principles that we want to go out there. We want to do good research. We want to be digging in every day. and finding good stocks. But let us hand the torch to you. Let us give you the options. So you can figure out what kind of stocks are the right fit for what you want to do.

Andrew

30:07

It's funny, you mentioned not realizing how or even say this, but this idea that financial advice is really expensive. And you just wonder how many investors don't think about 1% of assets as a high expense, but it's a lot more expensive than a lot of the other resources out there.

Simon

30:28

Yeah, absolutely. And I've got really good friends that are financial advisors. Thank you for the lovely lunches, they are delicious. But you know, for people, there's a subset of people that really love that and they just say, Hey, I'm hands off, take care of this. For me, there's nothing against that. But there's also I think there's also a subset of people that just don't know that maybe they've never considered investing on their own. But they're curious, let's, let's kind of give people the tools so they can make better decisions.

Dave

30:54

Yeah, we were talking off air kind of before the show about this idea of a barbell portfolio. And maybe you could kind of talk about because that's kind of how you invest. And I think that's something that Andrew and I have never touched on before. And maybe we could talk about that a little bit.

Simon

31:09

Yeah, the barbell ideas, you know, everyone has a different approach to investing. My personal approach is I like to go maybe we call like offense versus defense of an offense portfolio and have a defense portfolio. we've chatted a lot about the defense portfolio previously here in this conversation, right? This is the companies I really like dividends that grow over time, companies that I think are really embedded that I've got that moat, and I've got a management team that just kind of keep taking care of me as a shareholder, I sleep well at night, I don't have to check every week that they're gonna get disrupted.

And park that money into a handful of ideas that I'm very, very comfortable with into a retirement account. And then the offense is the opposite, where I am the type of investor that just gets a thrill out of going out there and deciphering these tea leaves, probably because of my previous professional experience of like, how our markets changing, and who's the small cap company, the innovator that's got the right approach, whether it's a different, you know, different fundamental science to drug making, you know, treating serious diseases like Alzheimer's, looking at some of those right now, whether it's completely different market that didn't exist 10 years ago, like the space economy, you know, how are we getting into outer space?

I mean, that's really interesting to me, right now, maybe it's the design of chips, where when we're looking at these newest waves of invidious chips, a lot of people still saying they're using way too much power. So let's completely fundamentally redesign the architecture, I mean, things like this, I get pretty pumped up about that stuff, too. And so that's the offense side of my investing strategy is that you know, your smaller initial stakes, I never take a full stake in the first investment in a company like that it's always small stake at first add to them six or seven times over as I follow them and become more comfortable over time.

Andrew

32:56

Yeah, they percentage barbell that you like to stick to? Are we talking 5050? Are you talking 20? At what what's the scoop their

Simon

33:03

rule of thumb, I probably would commit up to eight to 10% by cost to a single position. And I let them run, Andrew, I don't have any problem with one position being 25 or 30% of my whole portfolio, a lot of traditional, you know, portfolio theory and things like this, we would say no, you want to trim, you want to cut back, you never want to have a position more than maybe 10%. But uncomfortable, you know, again, what are the flowers trim, trim the weeds, you know, your highest conviction ideas? I don't have any reason why I wouldn't put a whole lot of money into those as far

Andrew

33:36

as the innovation companies versus the dividend companies do you have a a mix, that you tend to do more of one side or the other kind of

Simon

33:46

5050? Right? If you look at the pure numbers, you know, some of this is a retirement portfolio. Some of this is in trading taxable accounts. I never pull money out of the retirement portfolios, just add as much as I can every year, let that compound and grow. But then in terms of you know, the more active trading and again, I'd like to hold companies for three years, even in the trading portfolio, do a little bit more more active trading.

Andrew

34:10

Do you feel for the average investor that they should follow approach like that? Do you think it's completely up to somebody? How does somebody determine to what percentage to have a barbell like that

Simon

34:22

personal for everybody? I think that the rule of thumb and the most important piece is don't buy a stock that you're gonna sell within three years, you know, strata, even management strategies take time to play out. If you're trying to get in and out. There's so much so much algorithmic trading going on right now that individual investors have a disadvantage, you know, unless you want to build AI that, you know, interprets all of the earnings reports and all of the expectations from all of the Wall Street analysts. I mean, the market is designed that that's the most competitive part is the people that are trying to turn over stocks multiple times every year, get in and out all the portfolio's all the ratings, all that stuff.

The advantage for an individual investor is patients where you can I'm going to look at something that's not being looked at by all these supercomputers, give it three years, find something that you think is going to take a little bit of time to play out. Plenty of gains to be made and made in videos and the Tesla's of the world, that are still really large companies are doing really, really well.

Dave

35:15

So when you think about, like, the size of the companies, you've mentioned several times, like smaller cap companies, do you? This may be a dumb question. But do you look at those, when you try to analyze them? Do you look at those differently than you do the mega cap? So do you look at the small biotech differently than you look at Tesla?

Simon

35:35

Absolutely, because Tesla's got superior resources to a small biotech company does a lot of it, if you're looking at companies, which I consider the sweet spot to be two to $5 billion market cap, that's where I like to play the most. There's still small caps, but they've got growth ahead of them. But you've got to think about the risks, right? If you've got a company that doesn't have hardly enough cash on its balance sheet to fund its growth, yeah, can want to go out there and innovate and disrupt those big guys, but you still got to have somebody paid for the growth plan, right?

And where are you going to raise the money from? You're gonna go out to the bank and say, Okay, we've got assets, we're gonna go borrow 8%? Right. Now, that's a lot you got to pay for something like that, are you gonna dilute your shareholders, you're gonna say we're gonna go out, do a secondary offering. That's great for the company. That is great. If you're an investor that's getting diluted and a smaller piece of the pie now, but I do like that. A lot of discipline, there's innovative companies, there's companies that you don't want to go against Elon? David, if you and I, are you gonna go start a business today? And we're gonna say we're gonna go head to head with Elon Musk? Good idea, right?

Dave

36:36

I'm not smarter than I am. He's way smarter than both of us combined.

Simon

36:40

But he's, you know, you think about but then what can you do that can maybe complement that trend that Elon is building in autonomous driving around electric vehicles are what Jensen is doing within video right? Now. There's a lot that he wants to do with chips. Maybe we don't have to go design the next best GPU. But could we get his GPUs installed into servers? Like super micro did?

How can you complement these colossal waves that are taking place out there, if you're a smaller company, so that it's helping them or writing that same trade that they've that they're, you know, engineering, a lot of opportunities for the kind of the small caps and mid caps looking into places those big companies don't want to touch? Because it doesn't move the needle for them? Yeah, I

Andrew

37:19

like those two, I like those companies that can stay in their lane. And to your point, they aren't big enough markets that the big fish will go and swallow. But whether you make 15% from a really small company, or 15%, from a big company, it's the same 15% on your money. So why not go for those companies? You know, are there any other examples of companies that have stayed in their lane that you've really liked, and gotten good returns as a compliment?

Simon

37:47

We're talking to smaller companies there. Yeah. I mean, one that's got my attention right now is the space economy. There's all this Morgan Stanley a couple years ago said that space is a trillion dollar industry by 2040. We say Okay, that's great. How who's doing that? Where's that trillion dollars coming from? And the first obvious answer was going to be satellite internet, for those that have Starlink.

You know, we've got one of our advisors based in Sydney, kind of a little bit out of the densely populated city centers. But he's got Starlink because it works perfectly well for him. He's got low latencies be able to get on the Zoom calls with us. It's fantastic. You think where else in the world? You know, if you're willing to pay just a little bit of money? Is this going to be superior to one of the large telecoms, laying the fiber optic cables to get out there to you? There's a lot billions of people is the answer. And so a lot of companies, certainly SpaceX included are interested in, in putting satellite based internet to beaming down high speed internet rather than tearing up neighborhoods with, you know, digging and all this stuff that's required for that.

But then the question is, if you're not Elon, if you don't have billions of dollars to get him down to space, your telecom company, you want to offer this as a complement to your existing business, could you hire somebody to get your satellite into position. And so this is kind of the birth of the Space Launch industry. There's companies like Rocket Lab that are democratizing access to space, they'll say, Hey, you can give us a satellite of up to 300 kilograms, a payload will put exactly where you want. And you know that you don't have to ride share with Elon, you don't have to know exactly where he's going. Because he's building the rocket heavy for his own purposes.

We can do it for you. It's a little more expensive, but this is how disruption happens. It starts more expensive. The early adopters catch on, all of a sudden, you make more efficient rockets that can carry larger payloads for less dollars per kilogram. And over time, the companies that do that reliably get bigger and bigger contracts and get bigger and bigger revenue.

Dave

39:39

That's fascinating. I have heard from talk about the space economy and I mean, it could be literally limitless because space is limitless. Potential, probably beyond our lifetimes is kind of staggering. Are there any other I guess sectors industries beyond that, that have intrigued you? You mentioned Alzheimer's earlier? Is that something that you're kind of interested in?

Simon

40:00

And yeah, immunotherapy is going. This is not related to Alzheimer's, like you just mentioned there day but kind of similar that you know, a lot of drug development right now is working on these kind of checkpoint inhibitors, you know, help helping the body identify the bad cancers or proteins that it wants to attack that doesn't know that supposed to. And so kind of this new wave of science is going after this.

And it's broad based, it's a fundamentally different science that can be used for a whole bunch of different things. oncology is a huge term, right? 100 billion dollar market, just spending on treating cancer every night even considering all the development for the drugs. But you know, you kind of there's a lot of science that is focusing on one specific indication, one specific molecule you're wanting to get these T cells to bind to, how are you going to develop a drug that can help the body do what it's meant to do, which is attack disease. And so I think, you know, whether it's Alzheimer's, whether it's different strains of cancer, I mean, lung cancer is a huge market right now, it's not small cell.

Lung cancer is a huge one, right? Breast cancer. I mean, there's companies that want to make the cancer busting drugs. But then also, in addition to that, there's companies who want to build the diagnostics to figure out if you can diagnosis earlier, you can find those earlier in the body before you start showing symptoms. That's life saving, I mean, that's huge impact to society, and also huge financial impact. And investors. I mean, investors like me really liked the mission, but also like, this is really valuable for the medical world. And so biotech, and in diagnostics, and oncology, and genomics, all of that kind of blends into a really, really fascinating, innovative wave of healthcare that's going on right now.

Andrew

41:35

Yeah,that's super cool. We really appreciate I mean, I get the sense that we can continue to unpeel the onion. And there's so much to learn about investing and the stock market and businesses. And that's part of what makes it so fun. But also so rewarding is you can flip over that special rock that helps build your wealth. I know you have a wealth of information available for free for investors as well, your podcast, so please tell us about that real quick.

Simon

42:03

Yeah, sure. So we do have the seventh investing podcast, I know that you all are going to be a guest on that here as well, very soon. But you know, that's kind of us reaching out and speaking to other experts, such as yourselves about different views of the market. Again, investing is personal. I like to go out and talk to people that like me, do this day in and day out. Sometimes it's crazy stuff. Right? I chatted recently with a person who's all in on quantum computing. We chatted about some of the different cryptocurrencies here recently, I talked with a person who runs a vegan ETF here recently talked to somebody that next week is going to be looking at AI in the music industry, generative AI and how that's going to impact musicians.

All of that is context. We think it's interesting for a podcast and for what we'd like to put out there. But in the end of the day, I'm trying to form a view of the world that's informed and insightful enough to figure out where the best opportunities, and I forced myself to just every month say, what's my one best idea? You know, am I going for growth? Am I going to swing for the fences and take on this small cap $1 billion market cap company? Or am I going to play it a little safer based on everything that I see. And that's our job at seven investing. I really like the mission, I put my advisors up to every single month and say, okay, you don't get to pick 10 stocks, you get to pick one stock right now, what's your very best idea. And then we beat each other up too, right?

Like they're the if you watch our deep dives, we kind of throw the gloves off and let everybody take shots, and challenge the ideas too. And we've got three and a half years of a scorecard now that we've relentlessly looked at the numbers and kind of know now, what stocks were well, in what market environments and what were better in defensive environments. I personally think it's a great time to buy stocks, because there's $5 trillion in American assets, that still parked in money market funds. And that's fine. If you want to be defensive, and you're okay with getting 5% returns every year, a lot of people are right now.

They don't know what Jerome Powell is going to do what the Feds gonna do. But at some point, when the s&p is showing that it's up 17%, a lot of those people are going to call their financial advisors or make decisions on their own to say, Hey, why am I accepting 5% when the markets up 16 17%, you're gonna start seeing this migration back into equities. A lot of it's already gone into the large caps, because the returns of Nvidia and Tesla this year, and Microsoft this year, a lot of the mid caps that are doing really innovative things right now are being ignored. But it's a matter of time until the capital migrates to them as well, because innovation and cash flows. At the end of the day are what investors really are looking for.

Dave

44:33

Yeah, that's awesome. So I guess where else could people find more about what you got going on? Where in the interweb? Can we find you?

Simon

44:40

Yeah, thank you, Dave. Seven investing.com/subscribe is where you can start a membership. We literally want to make it as easy as possible to get started and start discovering everybody who signs up for our premium plan, which gives full access the first week is only $1. We just said just for $1 and go and look at all of our recommendations. You can look at all of our subscribers Recall all of our deep dives, all of our company updates. We have a community forum like we've tried to make it that you want to get in, you want to start seeing stocks. And then you want to learn more about it over time, right? Our mission is to empower, want people to jump in and say, Okay, I can do this. Let's get some skin in the game.

Let's buy our first stock and then start learning more about that expand competence over time. You know, anyone who's an investor is naturally going to be curious about things they didn't know about before. And so we wanted to set the bar or the financial hurdle, the financial risk as low as possible, and just say dollar dollar to get in. And if you love it, stick around and learn more about investing with us. It's a long term journey. I'm certainly enjoying it. We're mission driven company. We're really excited about what we're doing out there.

Dave

45:40

That's awesome. Okay, so before I let you go, one more thing, give me your best dad joke.

Simon

45:47

Man, I could go in certain ways, whatever the fish say you want to hit the concrete wall. Damn. When do dad jokes start becoming funny, Dave? When did they become apparent? Oh, man. Oh, it's gonna start me. I'm caffeinated. I keep going this way.

Dave

46:06

Awesome. Awesome. Well, Simon, thank you very much for your time. We really appreciate it. Even the dead jokes. We really appreciate all your knowledge and everything that you laid on our Westerns today. And this was a really fun conversation. I learned a lot and our listeners a world as well. So thank you again for your time. And with that, I will go ahead and wrap us up you guys go out there and invest within safety emphasis on the safety. Have a great week and we'll talk to you all next week.