Building Knowledge, One Company at a Time: Tips for Studying and Analyzing Businesses with Chit Chat Money

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Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have a special event. We are going to be talking to Ryan Henderson and Brett Schaefer from Chit Chat Money, one of my favorite podcasts. I listen to them every week and I really enjoy their stuff. And I thought everyone would get a kick out of getting to meet the voices behind the names. So today we're going to talk to Ryan and Bret about a wide range of stuff. So Ryan, Brett, thank you very much for joining us today. And maybe to start off, let's give you a nice softball question.

Dave [00:00:31]:

Maybe you guys could talk a little bit about kind of how you got started, maybe what was your first investment and what really prompted you to really start this journey.

Brett [00:00:39]:

You want me to go first? Ryan yeah. So mine's funny. So I started when I got a tiny bit of inheritance money and my dad said, hey, you got some savings, you don't need this, why don't you start up an investment account? I didn't know how to do it. He showed me how to set up a brokerage account and he was like, yeah, just explore yourself. You're kind of learn along the way. I don't really want to kind of tell you what to do. So I just looked up and I think it was back at the time when there was supposed to be that infrastructure bill that finally came last year, but it was back in, I don't know, 2016, 2017. So I just looked up stocks for the infrastructure bill and then one of them was US.

Brett [00:01:16]:

Steel, and I bought that one. I had no idea what I was doing because I was like, oh, US Steel, that's a good company, it's been around for a long time. Bought it, didn't know what I was doing and eventually sold that one. But that's how I got started. And then I kind of got the itch after that and started reading all the classic books, got on Twitter, talked with know in school, which maybe you can say how he got into it, which is when I kind of talked to him about it. Ryan wasn't it the first crypto bubble was when people started talking about it or you can explain maybe your yeah.

Ryan [00:01:48]:

Yeah, I guess first of all, thanks Dave and Andrew for having us on the show and we really enjoy your show as well. Yeah, it was kind of when Bitcoin was first getting of, everyone was talking about it just in social circles. And Bret and I were in college at the time and it kind of piqued my interest just because everyone talked about it and Bret was, know, maybe know, focus on some businesses first and kind of get your feet wet with index funds or and I guess that's kind of how I got started in it. And he lent me some of the same books, trying to remember some of the names of I remember, I think.

Brett [00:02:22]:

Just the classic ones. Peter lynch.

Ryan [00:02:25]:

Random walk. Yeah. Anyway, we started with that and then I remember the first actual individual stock I owned. Bret one time just in conversation was like, man, it feels like Netflix is just doing everything really well. And I was like, okay. Yeah. So I bought Netflix and they had like an earnings report and I didn't really even know the concept of quarterly earnings yet. And all of a sudden I looked at my portfolio and it was like down 20% after hours one day I was like, this is the worst day ever and it's in college, you don't have that much money to work with.

Ryan [00:02:58]:

So I learned to really invest in what I actually understand. So I know why something is happening kind of the hard way, but if I would have held, I'm sure it would have been fine now. But I guess it's really my first kind of foray into individual stock investing.

Dave [00:03:13]:

That's cool. So, all right, how did you guys go from, okay, I'm buying Netflix and US. Steel, to like, how did you kind of go through that path or that journey?

Ryan [00:03:24]:

Well, I can talk to a little bit here and then bret, add anything on as I think with most investors that are just starting, the learning curve is pretty steep at the start. Just kind of getting the basics in terms of not only understanding the financials but know, business concepts, know really just a fundamental base for how things actually function in financial markets and so all that. That was pretty much the first two years and that was kind of throughout college, I think, for Bret and I, and it was a lot of personal development. It wasn't necessarily anything from the school that we were learning in particular, but just really those books that we talked about and kind of using those to get used to the terminology and kind of the nomenclature and all that stuff in finance. And then from there we started to get better and I think evolve. Our philosophy and our strategy has evolved over time. I think we've been doing it for what, five or six years now, kind of together. And I interned at the Motley Fool for one summer and that was actually just really helpful in terms of just kind of development of analyzing businesses.

Ryan [00:04:35]:

They do a really good job kind of teaching their interns on what to look for and Bret was always a little bit ahead of me, I think. So I hopefully caught up a little bit after that summer in terms of just like understanding the basics of what drives performance and stuff like that. So that's kind of when we started to get a better sense of who we were as investors. And prior to that, during college, we started the podcast, as most podcasts when they started wasn't very good in my opinion, but it evolved. It got better as we got better. And then at first it was kind of just general investing conversation, but slowly morphed into analyzing individual stocks.

Brett [00:05:11]:

Yeah, it kind of turned into what we're doing now a little bit slowly over time. I think the reasons we did it is one, I started listening to Motley Fooled Money and reading some of their stuff and I was like, hey Motley Fool Money, it's good. But I think at the time it was a different form. It was only once a week. I was like, I like this show, but I want something to listen to every day. And there wasn't that much out there at the time back in 2017, and we were thinking, we got to learn. We want to get into this industry and meet a bunch of new people throughout. And we're like, why don't we just start a show? It's probably going to be bad.

Brett [00:05:39]:

It's going to have no listeners at the start, but we just kept grinding along on it and now, yeah, we're here where we are today trying to kind of learn about businesses in public.

Ryan [00:05:49]:

Yeah. Last thing I'd add is starting the podcast really gave us good access to people we probably wouldn't have had access to. It's not even that we had an audience or anything, but just it was a way for us to say, hey, can we interview whoever it was that we were talking to? We just want to ask you some questions and we're starting a podcast. And if we didn't have a podcast, people would be like, maybe not, but because we did, people would hear us out and answer some of our questions. Which was really, I think, a good way for us to kind of learn from investors that we admired.

Dave [00:06:21]:

Yeah, that makes a lot of sense for us. Well, for me in particular, I love it when we get to talk to other smart people because it just helps me become better. Just getting to listen to somebody like Toby Carlisle or Vitali Katz and Nelson and just being able to pick their brain and talk to them and get a sense of what it is that they do and how they do it. It's so encouraging and it can be humbling too. You can make you realize how farther I still have to go. But I think that's one of the things that I like about the Investing game is that there's always something new to learn and there's always something that I guess you can improve upon. And that's something that Andrew and I try to do in our own lives and try to help other people when they're listening to our show. For sure.

Brett [00:07:08]:

Oh yeah. It's an endless game.

Dave [00:07:10]:

It is an endless game. Yeah, for sure. So I guess along those lines then, what are some things that maybe you struggled with at the beginning that if you could go back now and tell yourself six years later, hey, what could I have done better then that you do now?

Brett [00:07:25]:

Well, I think it's the one that either people get caught into two camps, I think, and they make the mistakes when the younger one, they go way too deep value, and they go, I can't buy anything that has a PE above six, or they go, I'm going to ignore valuation altogether. We leaned into the kind of the growth category, ignore valuation altogether. And that didn't really hurt us throughout kind of the 2020 2021 period, but it did hurt us once that stuff kind of started to unwind and the stuff we've seen over the last couple of years. So I'd say that would be the biggest lesson, is, look, valuation might not matter for a couple of years, and you might look good, but you do have to still underwrite something that makes sense based on the cash the company is going to generate versus the price you pay. And it might not play out for five to ten years, and it might not matter for a long, long time, as we saw with some of these companies, but eventually it will, and it will humble you.

Ryan [00:08:13]:

Yeah, I'd say the same thing where I still think investors can overpay I'm putting that in air quotes for a really high quality business and still be fine in the long run. But I think what we've gained over the years is an appreciation for how rare it is to find a truly high quality business. And I think when interest rates were really low and it was easy for a lot of companies to kind of get access to new money, it kind of conflated pretty good businesses with the truly, truly high quality because a lot of them were kind of growing, but without any sort of a focus on cost. And as we've seen kind of in the last couple of years, as they started to rein in some of these costs, it's been difficult for certain businesses. And so I think over the years, especially the last two, we've really started to appreciate what the kind of characteristics are that we look for in a true compounding business and finding ones that we think maybe they won't grow as fast as some of the businesses we were buying earlier on, but they'll grow at a good rate for a long time. And the growth and the profitability, it's all durable. I think we've maybe leaned more into that focus.

Andrew [00:09:22]:

Do you mind giving an example of one of those types of businesses? I like this idea of might not be the fastest growing company in the world, but maybe it has more durability than some of the other more exciting names.

Ryan [00:09:38]:

I think maybe one of the characteristics I've kind of started to appreciate more and more is economies of scale. So the advantages that really scaled businesses develop over time. Like, okay, we looked at Lowe's recently, the home improvement retailer, and they're just, because of their size today, they get better rates from vendors, which allows them to have better margins than their mom and pop competitors or hardware stores, or they can pass through those cost savings to customers, which in turn steals more share. And it's kind of this virtuous cycle. And so maybe that's one that I'd call out is the economies of scale.

Brett [00:10:18]:

Yeah, I got another. Or did you have something no. Bret Neil I would say one that is a clear example from our portfolio, that's one that's done well for us is Dropbox, where, look, when you ever talk to someone about dropbox, they go, that's pretty boring. They just kind of do the file management stuff. Isn't Google Drive going to kill them? And you look at the valuation, at least today, it's a little more expensive. But when we first bought, it's trading at, depending on what valuation you use, maybe like ten times earnings. They're buying back a bunch of stock, they're growing at maybe 7% to 10% a year, depending on foreign exchange and depending on timing of price increases and blah, blah, blah, blah, blah. And look, that's going to add up.

Brett [00:10:57]:

If things continue in that direction and the valuation or the earnings multiple doesn't expand, that's probably going to add up to maybe 1215 percent returns, which isn't crazy, but there's also a higher floor there because of that valuation. Even if the business doesn't grow that much, they're going to continue returning cash to shareholders through buybacks. And, yeah, it's not as sexy as something that was at 30 times sales growing 100% year over year, but those type of businesses have done much better for us and I think for a lot of investors over the last few years. And that's something that we're trying to take to heart through kind of the next business cycle as we continue on this journey.

Ryan [00:11:30]:

So would you call that high switching costs?

Brett [00:11:33]:

Potentially, yeah. I mean, that's not economies of scale, but yeah, high switching costs. I don't yeah, or maybe just people ignore them, like Google Drive. No one focuses on Google Drive, stuff like that.

Andrew [00:11:47]:

It sounds like a really low valuation.

Brett [00:11:49]:

Yeah.

Andrew [00:11:50]:

If it's really highly capital efficient, then they can just buy back stock and they can do a lot because their valuation is low.

Brett [00:11:57]:

Yeah, there's been at times in the last few years where dropbox has gotten really cheap and they kind of changed their capital strategy as they went public, and people complained about the expense management, and they reduced some of their operating expenses and then they got much more cash. Generative and they said, hey, we're going to just return all this cash to shareholders. So at the right price, we were like, hey, we don't need that much growth here. I think there's a big margin of safety and that's focusing maybe more on the margin of safety first, then focusing on the growth later is something that we're trying to take to heart.

Andrew [00:12:27]:

You feel like it kind of depends. As far know, we've talked about different kinds of businesses. How do you look at constructing a portfolio and what kind of businesses you try to put in there?

Brett [00:12:38]:

That's a good one. Ryan, do you have anything? Because I know we have waxens wanes a little bit on what we think, but we don't necessarily think about industry diversification, but we do think about, I would say a little bit of factor diversification because this is not the primary focus. But we don't want everything to be in that growth category. That just is if you goes down 30%, it's going to be down 40, 50%. I mean, that's just not going to be as enjoyable. And it is because we do run the investment fund as well, so we're focusing on that. But we do like that mix. And I think what's interesting about that is if you have some of the value type stuff, if you have some of the small cap value type stuff or maybe even some international stocks, it can give you that opportunity to, okay, these are doing well at that time.

Brett [00:13:22]:

You can sell down, trim those down, and then you can buy some of those beaten down growth stocks and maybe say, late 2022 was a good example of that. But if you only had growth stocks, okay, you have to sell a really bad beaten down growth stock to buy another one. That's not as optimal. I think from a portfolio management perspective, I hope I explained that I'd be.

Andrew [00:13:43]:

Pounding the table on that. I feel like that's not talked about enough at all.

Ryan [00:13:49]:

And I think we honestly probably learned that the hard way.

Brett [00:13:52]:

We talked a little bit about it, but honestly we had a little too.

Ryan [00:13:54]:

Much, I think, in terms of portfolio construction and kind of managing the position sizes, it's something like Bret said that we've kind of flip flopped on over the years. I think we've maybe leaned more towards business quality first. And I mentioned earlier that we look for companies now that can grow their earnings durably so over the long time period, and that's maybe obviously we want to think every business that we own is high quality. But in terms of weighting positions, just because something is cheap optically or maybe screens cheap. In terms of valuation multiples, we're a little more reluctant, I think, to make that too big of a position versus something that maybe it's a little more expensive, but we know that business is going to last and most likely grow into the future.

Andrew [00:14:43]:

I'd love to unpack that a little more, maybe for the beginner who it makes sense, but just kind of wants a little more color, for lack of a better word on it. What's the benefit to doing something like that?

Brett [00:14:55]:

Well, I'd say the benefit is that a high quality business with a competitive advantage. Typically it's not 100%. Yeah, sometimes you get this stuff wrong, but they are going to be a lot more consistent with their results if they're not in a cyclical industry, if they have these competitive advantages and can either raise prices or going after a large addressable market that's still expanding. I'd say an easy example for Vivo to understand and this is a way more mature business now, but still probably will grow for many years into the future is Visa. We don't own it, unfortunately. It's done so well over the years. But that one, if you compare that to maybe something else and it's a similar market, would be Discover Financial, which is much more volatile, much less high quality business. So we'd rather have an 8% position in Visa.

Brett [00:15:41]:

We've never owned Visa, but just as an example versus a Discover would probably be a smaller position. It's riskier, it probably has higher upside if it's trading at a super cheap valuation. But it's a little bit I think I'm using the term right, oxymoron, where even though you think maybe a Discover, which is riskier has higher upside, we'd rather have that a smaller part of the portfolio. Because if we're right, it's going to become a big part of the portfolio and the returns are still going to be solid. Whereas in regards with a Visa we'd be more confident in that performing well, but with a little less capped upside. But if it's a larger position, we want that margin of safety as well. Because if you have a large position, if something's 8% of your portfolio, you really need to be confident that that's not going to go to zero.

Andrew [00:16:25]:

I think Dave agrees with the Visa part, right?

Dave [00:16:27]:

Yes, I do. I've been lucky enough to own that.

Ryan [00:16:32]:

Yeah, congratulations. Probably should have ourselves. Yeah, I think the only thing I'd add there is that we do own some companies where we don't necessarily think they are nice quality businesses, but we think they're really cheap. We just own them as a smaller position because of the risk. If we're basing it on trailing earnings and it's a business that is reliant on one customer or two big customers, or there's some sort of big inherent risk to their potential profits, that price to earnings that e could disappear in that multiple or the earnings could and then suddenly it doesn't look so cheap. So that's kind of why we prioritize the competitive advantages and the quality of the business first. Because if you look at a business like, I don't know, let's take Amazon for example, which is one we own, we know, or we have a pretty good sense that their revenue is not going to go to zero tomorrow. They've got millions of customers.

Ryan [00:17:27]:

They have a massive infrastructure base all throughout the US. Which makes it very hard for people to compete with them in terms of shipping times. And it kind of like I mentioned earlier, it's this virtuous cycle that kind of compounds on itself and it provides faster shipping times, happier customers come back, that additional revenue allows them to reinvest in more infrastructure and continuously build on it. So we just have a better sense that, okay, that's a really high quality business, I'd rather overpay for that or hopefully I'm not overpaying but pay a little more for that than the one where the earnings could be extremely volatile.

Brett [00:18:02]:

And we'd be more comfortable making that a large position.

Andrew [00:18:05]:

Yeah, makes sense. Those are good answers and it sounds like there's a good emphasis on the whole risk reward thing, which kind of goes back to what you were saying with some of the earlier years where maybe when the growth year stuff was doing better, maybe there was a lot of focus on the reward part versus the risk part. And so on the flip side, if value has been doing good lately, you don't want to make the same mistake on the other end. I like that kind of finding a balance. Any other thoughts on portfolio structure or how people can start to think about it as they're going through their portfolios?

Brett [00:18:45]:

I'd say my recommendation for someone that's younger is the biggest mistake you can make, especially if you're just starting out as a beginner, is buying too many stocks because if you're younger you're probably just building out the portfolio over time. And if you only have a few thousand dollars or you're again like a really beginner there, buying 30, 40 stocks is going to be really hectic. It's going to be really confusing. It's going to be way harder to follow. I think it's much better to just buy eight or ten and then build it out over time if you feel like you need more companies because you're going to be diversified. If you have probably ten to 15 companies and they're not like all the same, like ten electric vehicle stocks or something like that, you're going to be fairly well enough diversified. But it's just at the start I've seen plenty of people go like, oh yeah, I bought this, this. I just think that makes it a lot more stressful and confusing.

Ryan [00:19:35]:

Yeah, I think Bret raises a good point, which is the best way to really learn about businesses and what drives performance of stocks over time is to actually, I think, get your feet wet a little bit and be an owner. And don't put all your eggs in one basket, but buy some stocks, read their annual reports, read what the CEO maybe he writes a letter to shareholders and really kind of be along for the ride. And that's probably going to give you your best kind of learning curve or learning experience because you get a sense of that's the best way in my opinion to get a sense of do I trust this management team? Which at the end of the day, that's probably the biggest thing is are they taking your capital and allocating it reasonably well, or do they seem honest and like they're doing what they think is best? So I think the best way to do that is to really be a shareholder. You can watch from the sidelines, but I don't think you get as good of an experience in terms of understanding the business and learning about it, doing it that way.

Dave [00:20:31]:

Yeah, I agree with all that. I guess my last question about the portfolio idea is when you size positions, how big are you comfortable going with the idea that some of these, like Bret was saying earlier, could grow into a bigger portion of the portfolio? So initially, how big will you guys consider going into a position, and how big do you think people should starting out? Start?

Brett [00:20:56]:

Okay. Yeah. So the last one I might have to think on, but for us, we keep it fairly simple, except for if it's a I mean, we have one exception in our portfolio right now, which is kind of a conglomerate type company, but we'll put that to the side. But generally if we're buying a high quality business that we think has a competitive advantage, we'll make that a 6% position. And then if we are at cost and then if it's one of those riskier ones, it'll generally be a 3% position depending on if prices get super aggressive or super cheap. We might add or trim along the way, but we're not doing much of that. Generally, when we buy the 6% position, we're going to let it do its thing unless the valuation gets totally out of whack and it goes up to 300% in a year or something like that. But that's our philosophy, I think, unless I'm missing something.

Brett [00:21:45]:

Ryan and maybe you want to touch on for beginners?

Ryan [00:21:47]:

No, I think the most we've ever done are willing to do is a 10% position at our cost basis. If the stock does well and it grows, we may allow it to kind of grow to a higher position. Hopefully everything, hopefully the whole that's a good problem to have, but the most we're willing to do is 10% at cost. I think as much as I felt like we've learned over the years, someone once told me, never doubt your ability to be wrong. And I think it was really useful advice because you could think something's the best investment in the world and the future is unpredictable. Something could happen that disrupts that business and you could be wrong. So that's kind of why we try to limit it to 10% at our cost basis. But I'd say for beginners, start small and we even do this to some extent where it's like if we think a business is good, we think it's an attractive opportunity.

Ryan [00:22:40]:

We'll usually add to it over time as we get to know the business a little bit better and we maybe see like a better opportunity to maybe the stock gets cheaper or something like that. But I think adding over time or I believe there's the buy in thirds approach which is if you think it's going to be a 6% position in the end, start with 2%, add 2% and add kind of the remainder over time. I can't remember the exact rule but you don't have to do it all today, especially for people where you have consistent income coming in. You can certainly add to it over time.

Andrew [00:23:12]:

How did you guys come up with the three and the six? Is that something you guys had like lively discussion about? Is it a good idea that the other guy was like, let's do that. How did that come about?

Ryan [00:23:23]:

It's always tough to arrive at a specific number because the portfolio management part, I've heard it described this way where it's really an art, not a science. It kind of depends on your personal objectives and risk tolerance. And so for us, like we said, we've got those 3% positions where they're not the highest quality businesses in the world, but they're really cheap. And 3%, that seemed like enough, in our opinion, to if we're right, it's really cheap and the stock does really well, it benefits the portfolio. But if it goes the other way, it doesn't completely crush the portfolio because the upside is kind of unlimited as opposed to the downside being zero. So I think that was really just kind of a personal risk tolerance. Would you agree Bret?

Brett [00:24:04]:

Yeah, 100% on the 3% one and then on the 6%. We did have a rule where we started out, we're like, oh, hey, we'll put it in this range. But then when we decided it was, like six to 8%, and we're like, oh, depending on our conviction and stuff like that, but that's a little too granular, we're like, okay, let's just make it 6%. It kind of gets backfilled from our goal of position sizing, which is about ten to 15 companies and then if we start at 6% positions, some of them do well and have turned into like 1012 one, maybe a 15% position. So that kind of rounds out the portfolio where if we start at 6%, it's not too low to be irrelevant but it's not too high to be way too risky as taking this big bet on this new idea we have. I mean yeah. Could it be 5%? Sure. Probably wouldn't make a huge difference.

Brett [00:24:49]:

Could it be 7%? Sure. Probably wouldn't make a huge difference. But I think it's keeping consistent. We think that's something that's not going to really affect the returns too much over the long term. And the most important thing for us is if we have the good idea to make sure that if it goes up or down we're just holding through that idea. If we bought at the right price we're. Confident in it and we're just going to let the business results speak for themselves.

Ryan [00:25:11]:

We found there's always a little bit of recency bias whenever you buy something new. You always think like, it's a better opportunity than the stuff you own, maybe. And so forcing ourselves to make it that position size where it's equal to everything else kind of, I think, prevents us from doing stupid things. So maybe it's for simplicity purposes as well.

Andrew [00:25:31]:

Shiny objects.

Ryan [00:25:33]:

Exactly.

Brett [00:25:33]:

Yes.

Andrew [00:25:35]:

I love the idea of having systems in place to try to fight some of the biases that come that we all face. Whether you've been investing for 40 years or 40 minutes, we all have tendencies because we're human beings. Are there other things that you guys have done, maybe consciously or subconsciously that helps you fight against the different biases that we all face as investors?

Brett [00:25:59]:

Well, I don't know if this may be trying to fight the biases, but every two weeks we do. We force rank our each individually, force rank the companies that we own, kind of blindly do it individually, and then we have a call and discuss why we ranked it sometimes, you know, it might not change from every two weeks, but if it does, we try to say, like, hey, look, what are you thinking of? The other person asks, hey, what are you thinking of? Why is that so low? And I'd be like, It could be Ryan talking to me like, hey, you lowered whatever X Company in the rankings this week. Why was that? I didn't see anything change with the business. Maybe the stock was down 20%, the stock price could be talking to you. So we try to have a little bit of back and forth there where we are trying to help each other because it's a lot easier to see the biases in others than it is in yourself. So I think that's something we try to do. I think the bi weekly ranking things we do is very helpful for fleshing out those feelings and those biases that may be coming up. Yeah.

Ryan [00:26:54]:

And I think maybe a takeaway for beginners here is to build a sounding board, build a community of people that you can run ideas by. And maybe it's just one other person, but the fact that Bret and I have to essentially get approval for portfolio changes in our arch capital fund, it forces us to really think through our decisions. Because if I really want to buy something, I can't just do it on the whim. I got to write it out and I got to convince Brett that it's worth allocating money to now, maybe it doesn't need to be that in depth, but just have someone that you could know. I'm liking this company. What do you think about it? Or I'm thinking about selling this stock because something happened. Do you think it's the right decision? And that's basically what we're doing every two week with companies we own, and we don't try to be that active in terms of buying and selling. But just discussing, I think, is always helpful.

Brett [00:27:46]:

Yeah. And I would add on, if you don't have anyone to talk with stocks with at the moment, I would just write it down yourself. It's pretty easy. We found this when we've forgotten to write down stuff that we've done, is you totally can have different memories about what happened. And if you go back a year, you're like, oh, I bought this for X reasons. And then you look back at your journal and you're like, oh, wait, actually, I thought this. And I think if you don't have someone to talk to, just writing down your thoughts, it can just be one sentence like, I bought X stock because blank comma, blank, comma blank. And I think it's very helpful.

Dave [00:28:16]:

I agree. I think journaling or writing things down is super helpful because we all think that we remember everything and our decisions correctly, but Twitter can be a very good tool for that. And it can also be quite humbling, because if you look at something and you go, oh, I actually said that a year and a half ago.

Brett [00:28:34]:

Oops, yeah, the stock stab 60%. You're like, okay, well, I guess I was a little confident there.

Dave [00:28:40]:

Yeah, I think something like that could be helpful too. If you're looking to maybe power rank your portfolio and you don't have somebody to share it with, you could use something like an Instagram or Twitter to just post it out there, and people will respond and give you feedback on that. That could be helpful. And if you put PayPal as part of your portfolio, it may not be very helpful, but that's okay.

Andrew [00:29:05]:

Sounds like a personal experience. Again.

Dave [00:29:07]:

Yes, a little bit. I had a bunch of people pestering me to I don't really talk about my portfolio much, and so they were pestering me about it, and so I posted it, and then everybody was like, 7% for PayPal?

Ryan [00:29:20]:

What are you, nuts?

Dave [00:29:21]:

And I'm like, yeah, okay, just chill out. Anyway, yeah, personal problem. A question that I kind of come back to is you guys are running between ten to 15 companies in your portfolio, and then you kind of do these rankings. So how do you maintain maintenance or knowledge of what's going on with your companies? Like, what kind of work do you do behind the scenes of not buying things because you're not just watching Netflix and going to the beach. I'm sure you're working on those companies. So what does that look like for you guys?

Brett [00:29:52]:

Yeah, it's pretty standard, I would say. We try not to overload with information because I think a lot of times if we come up with mention those biases again, if you read too much about a company, you can convince yourself that anything is the greatest investment ever. But the basic things that we do every quarter are read through all the earnings information, read through the conference call, read through the SEC filing, and then we have specific metrics that we're looking for. For each know, basic one would be for most companies, we're looking at shares outstanding. We're looking at their revenue growth. And then there could be specific KPIs, like total users, I don't know, listings on Airbnb or something like that. We're tracking those. And one thing we like to do, which I think is very helpful, I enjoy this a lot, is make it into a visual.

Brett [00:30:38]:

So just turn it into an easy graph, usually just a bar graph. And when you look at it, you can say, oh, wait, there was a material change over the last couple of years here. That's basically all we do. And then when we're reading up on something, there could be like a specific big podcast that the CEO did, or there could be an investment conference that one of the executives went to. We're always trying to take notes on that. So we just have a note sheet that runs in its chronological order. You just say what date it was and basically just take notes on it. We just do it in bullet points, and that's how we keep up with stuff.

Brett [00:31:06]:

And then most of the other time, we're trying to look at other companies to hopefully keep a good competition going within the portfolio and find something to replace them. Because I think an important thing is and sometimes it can get unhelpful to focus on this too much because you don't want to have the portfolio turning over every month or something like that. But trying to up level your portfolio constantly, I think is a good North Star to have. That can be something that is really a never ending process.

Ryan [00:31:31]:

Yeah, totally agree. And can you guys hear me okay?

Dave [00:31:33]:

Yep.

Ryan [00:31:34]:

Okay. The other thing we do that I think really helps us maybe not get, I think a lot of when we were first starting, we would research a company, and you'd spend so much time researching that you're, you know, I got to make a decision now. And once you're a month into reading about a company, it kind of feels like a waste to not buy it. What we do with our podcast is we have our not so deep dive each week, which is we basically just have a sheet of paper. And I think whether it's weekly or monthly, everyone, this is a useful exercise to just have different things you're looking for. So what does the business do? What's the management team like? What do you think the upside is here or something? Have a different sort of a checklist and just do a different company once a week or once a month. We do it weekly for that show, and it helps us not get that bias where you've done the research on that one company for so long that you feel like you have to buy it because you're looking at a bunch of different companies constantly. And it's just that repetitions, the practice of seeing different businesses and you get a better understanding of financial markets as a whole doing that.

Ryan [00:32:36]:

And it kind of gives you a better sense of what's a better opportunity and then kind of at the end of the week or at the end of a show sometimes we know pretty early on whether something's not going to work out or not, but it's kind of a filter for us to say, is this interesting? Is this something we want to look at a little deeper after it kind of goes through our checklist? And so I think having visiting a new company once a month, once a week, whatever it is, and just going through a simple checklist is a helpful exercise for any investor.

Brett [00:33:03]:

Yeah. One thing to add on to, for a beginner, if you look at ten stocks or you research ten stocks, you might do in depth research, you might just do some basic research and you buy five of them. You're buying 50% of the companies that you buy or that you research. But if you research 300 stocks I don't know if I could do the mental math in my head here. And you only buy five of them, that's a way lower percentage, right? So, yeah. What would that be? Like 1.5%, something like that?

Ryan [00:33:31]:

Way lower.

Brett [00:33:32]:

Way lower. 1.66, I think. I don't know. I could be totally off there. But yeah, it's going to be way lower. And hopefully if you look at 300 stocks or 300 companies over a multiple year time period, the next one that you look at is not going to jump out to you just because it's growing revenue 100%. You're going to go, oh, wait, no, I know. Just because something's growing revenue 100%, that doesn't make it an automatic buy.

Andrew [00:33:54]:

Do you guys have different filters that you use to kind of narrow down the search?

Brett [00:33:59]:

Yes, I think it's less systematic, but one thing we look at I mean, this is Qualitative. The number one thing we look at to start is whether we think it has a competitive advantage and it could be weak. We're not afraid to look at something that has a weak competitive advantage but has a cheap valuation. I think there's a little bit of a balance there. I think the easiest filter is that we're not going to look at something that has an insane sales ratio or gross profit ratio. It's just not going to be something that we look at anymore. And then the other filter we're looking at is management. But Ryan, you may have something that.

Ryan [00:34:29]:

You might not own, but if it's a business that's really attractive and we've been better about this lately, we didn't do it as much at the start. I think Airbnb, it's a business that we both looked at and we thought, this has a lot of promise and we think it's a platform that's going to grow and it's a good business, but it's not a price we want to pay. Don't just discard it, but keep it kind of on the sidelines, but follow it. So still read the reports, still track it. Maybe even have some of those metrics that you update every quarter in a Google Doc or something or just a notes page and follow up because one day it will get cheaper. I think Buffett's famous for used to read companies annual reports for 30 years. He'd never buy it and then he'd buy it once it finally got cheap enough. And he's probably the most patient of all.

Ryan [00:35:20]:

But being willing to wait, but still kind of examining and analyzing all those businesses is really helpful practice.

Andrew [00:35:27]:

Put them in your farm system, right?

Brett [00:35:29]:

That's right. Good analogy.

Dave [00:35:31]:

Yeah, that's a great analogy. John Rotanti mentioned that when I interviewed him that the way he sources ideas is he does more work on his watch list. And that to me, I thought was kind of brilliant because most of us, including myself, when I would add a company to my watch list was basically just put it somewhere and every once in a while I'd look and go, oh, I wonder if that's cheap or not. But I didn't really know that much about the company. And so his idea was to do all the work that you guys are talking about on the company constantly. And so that when he like you were saying about Buffett, at some point it will get cheap enough that when it does, then he's ready to pull the trigger on that company. And he didn't give me a number, which is fine, but even if you got 20 to 30 companies, that's still plenty of research to do. And if you think those are the best companies in the world, then I think it's time well spent.

Ryan [00:36:24]:

Yeah, exactly. It's time well spent. The research is not a waste just because you don't buy it. It might end up on the watch list, but if you're still tracking it, the price is going to change a lot quicker than the business quality, most likely unless something drastic happens. And so finding a great list of high quality businesses, whether it's 20 or 30, when the price and give yourself some sort of a ballpark where it's like if it hits 20 times earnings or whatever, I'll take a deeper look at it, but really kind of have a number in mind where it's like, I don't want to own it today, but I know it's a good business that I would want to own at the right price. Have it know an active watch list as opposed to something. Exactly. Dave, as you just I used to just discard them to the watch list and suddenly I look back and there's nothing I want to own on there and it's like, okay, that's not really useful.

Andrew [00:37:11]:

So you guys have a podcast talking about a lot of things that could make other people's watch lists. So maybe tell us about your podcast and how people can use that to think about ideas to invest in.

Brett [00:37:24]:

Yeah, there's a good tagline. Maybe we should build the watch list with other something like that. Yeah, it is kind of part of our goal. So like ways we pivoted the podcast is we said, look, we're trying to start out, we're trying to build up basically sort of reputation and track record, all that good stuff in the industry. And we think the best way to do that is just put it out for free as a show. And we put all our research out. We basically go through one company a week for one of our shows and one of the other one is an interview with an analyst or someone that's talking about a specific company. And then we basically want to share that with everyone and then people listening to it, they'll give us feedback and then hopefully as someone listens to it, this is what kind of we say every episode.

Brett [00:38:01]:

Like after listening to this, we don't think it's maybe enough information to buy it. Like you shouldn't listen to our shows and say, hey, I want to buy this company, but it should inspire you maybe to either put it on the watch list or research it further. So eventually you either buy it or keep track of it or something like that or a lot of the times, which unfortunately there's so know there's a lot of subpar companies you have to sip through, but a lot of times you'll discard it. But that's okay. It's always good to learn about a new industry. Anything else, Ryan, about the show that we think can be helpful?

Ryan [00:38:30]:

No, we've been doing themes, so our not so deep dives are centered around each month we do a new theme. So I think the most recent one we did was Share Cannibals. We just picked businesses that had repurchased a lot of their stock over the years and each one of those I found really exciting and attractive. Those are ones that actually went onto the real watch list, not the discard watch list. And then there was another theme where we did Fallen Angels and I got to say a lot of those were not anywhere near anything I'd want to touch. But it's a helpful looking at good businesses is really helpful, but sometimes looking at bad businesses can be helpful too because you realize the kind of characteristics that you don't want to have in your portfolio. And some of that is kind of whether it's dishonesty from management or changing your moving the goalposts over the years in terms of objectives from the company, that kind of thing. I think that's one of the benefits of our show is that listeners have told us that they enjoy the candor in terms of we're not always going to be positive about a business, but it's at least useful to look at it and say, what went wrong here? Can you identify that in other businesses in the future? That's hopefully the goal.

Brett [00:39:39]:

Yeah, and then some of the themes are more specific to sectors. So we'll do like Fintech or this month we're doing airlines or we've done dating apps, which luckily there was four companies that were public. There's only four that could cover a month. But I think it's really helpful when I mean, tying it back to the beginners aspect. Looking at one specific industry and kind of trying to get good at learning at that can be a great entry point because looking at all the different sectors can be overwhelming and it can be much easier to understand. What's a good business in that industry? What management teams are kind of saying stuff that's different and maybe in a good way or maybe in a bad way. Because if you look from one week you study this airline, one week you study this other one, you're like, okay, what is this management team saying? What is the other one saying? And if it's completely different things, okay, why? And you can investigate for it. It's very fascinating that way, and I think it'd be helpful as a learning process.

Andrew [00:40:28]:

Totally agree.

Dave [00:40:28]:

Yeah. Truthfully, that's what I use it for. It's just to learn about the businesses that you guys are talking about because it gives me 45 minutes to an hour's worth of information about a company that I may or may not know about. And as everybody probably knows, I'm big in the Fintech thing and I had frankly never heard of shift for payments. And so after hearing that conversation, I was like, no, I'm going to hard pass on that company. But it was interesting to learn about. And I loved your conversation with Matt Cochrane about Mastercard, for example. I think their podcast is super useful for that reason alone.

Dave [00:41:04]:

I mean, it's entertaining as well.

Brett [00:41:05]:

Thank you.

Dave [00:41:06]:

You're welcome. But just the sifting through companies and getting kind of a 30,000 foot view of the company I think is very helpful and I'm sure the repetition has made you guys better at it as well.

Brett [00:41:18]:

Yeah, I think sticking to the schedule some weeks you're like, I don't know, you're a little less motivated than others, as everyone is. But I think seeing that schedule over time, you build that, you can use it when you're studying other companies. Like if you're studying a new business and you go, oh, this reminds me of these qualities of this business that went up 100 X, the stock went up 100 X. Or it reminds me of this industry where it's highly cyclical and it might be risky to buy something that's at five times earnings. So I think it can be really helpful that way. And it's one of those where when you start out, you don't feel the momentum going, but like three, four years later, I feel like I know a lot more industries and there's still a long way to go. I mean, there's so much stuff to learn about investing, but the momentum builds and it's slow. But once you get a year in or something like that, it can be extremely helpful.

Ryan [00:42:04]:

Yeah, it's made it quicker. I've gotten quicker at identifying things I don't like because now if I open a ten K or an annual report and I see certain language, certain commentary.

Brett [00:42:16]:

Or so much things trying to confuse you, Ryan, that's one of your biggest pet peeves is what would the right term be? Ambiguity. Right?

Ryan [00:42:23]:

Yeah. Just like management not being clear, communicators. I'm quickly like, okay, this is unnerable, but back in the day I probably would know, taken my time and kind of maybe, I don't know, I been a little slower to realize what doesn't work for me. So I think having the repetition is nice. And like Bret said, sometimes we go into a week knowing that sometimes there's companies we don't know and we know it's going to be a slog and it's going to be a research project to figure out how the company operates, especially some of the financials businesses because it's kind of a black box sometimes. So forcing ourselves to do that is really I think it's made me a much better investor.

Andrew [00:42:58]:

That's awesome. So people should go check that out. The podcast is.

Brett [00:43:04]:

Right and our website is technically our substac, so I'd say Chitchat Money. I don't even know what the URL is. Chitchat Money substack is where you find it. We have a website, but it's kind of dead. We just use the substac.

Andrew [00:43:15]:

I don't know where the.com came from. You guys are on Twitter as well. What's your Twitter handle?

Brett [00:43:19]:

Yeah, I'll go first. It's at CCM underscore bret. So just Chat Money, but abbreviated underscore Bret and Ryan's is the same but with Ryan.

Ryan [00:43:29]:

R-Y-A-N or just at chitchat money is the Twitter handle.

Brett [00:43:34]:

Yeah, that one's easy to awesome. Awesome.

Dave [00:43:36]:

Well guys, thank you very much both for joining us today all the way from sunny Seattle. This has been a lot of fun and I know our listeners will get a lot of enjoyment it as well as knowledge from everything you guys shared. And check out their podcast and check out the Twitter handles. They're great follows, they drop a lot of knowledge on Twitter and it's great. And the podcast is fantastic too. It's one of my top listens. So I strongly, strongly encourage you guys to go check it out. So with that, we will go ahead and sign us off.

Dave [00:44:01]:

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.

We hope you enjoyed this content. Seven steps to understanding the stock market shows you precisely how to break down the numbers in an engaging and readable way with real-life examples. Get access today@stockmarketpdf.com until next time have a prosperous day. The information contained just for general information and educational purposes. Only it is not intended as a substitute for legal, commercial, and or financial advice from a licensed professional review, our full disclaimer@einvestingforbeginners.com.