IFB314: Listener Q&A - Learning How to Evaluate Potential Growth Opportunities

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Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have episode 314. Today we have two great listener questions. One's a two parter that we're going to go ahead and answer before we dive into those. I wanted to throw this out there. If you have a burning question that you would love for us to talk about on the podcast, please let us know. We would love to hear it. We'd love to talk about it.

Dave [00:00:21]:

We'd love to help you. If you do have one, the email you could send it to is newsletter at einvestingfor beginners. Again, that's newsletter@dot.com, I will put that in the show notes so you can see it on your phone as well as on Spotify, Apple. Wherever you listen to your podcast, please, please, if you are driving, driving something heavy, brain surgery, playing golf, air traffic controller, do not stop what you're doing. To send us a question, wait until you're at home. If you're at home, by all means, knock yourself out. Send it to us whenever you want. We'd be happy to receive that.

Dave [00:00:56]:

Again, newsletter@einvestingforbeganners.com. So with that all behind us, let's go ahead and kind of start answering the question here. So we got a two parter from Josh. This is a great question. So here we go. Hello, Dave and Andrew. I've been looking into getting into the stock market world for quite a while now. I

stumbled upon your podcast a few months ago and it's really given me the belief that I can do it and be successful in it with the knowledge shared by you both.

Dave [00:01:21]:

My problem is that I always want to be 100% sure with things before committing and the more I listen, the more questions I have. And I putting off getting started. I'm planning on subscribing to your e letter portfolio and investing in a couple of your picks just to get started and using your metrics to help make them my own picks. There's just a couple questions I have. So here is the first question. Depending on what country you're from, should you only buy from certain stock exchanges? For example, I'm in the UK, so would it make more sense for me to buy from the London Stock Exchange? Would I get different results to your picks? Would your picks even be in the London Stock Exchange? Starry my knowledge is very basic. So, Andrew, what are your first thoughts on Josh's? Great question. Here number one.

Speaker B [00:02:01]:

Yeah, thanks for writing in, Josh. I appreciate the way you are willing to kind of share that. Hey, every answer I get, I have more questions. Reminds me of that old TV show Lost. Every time you get an answer, there's three more, seven more questions they've opened. And I know how frustrating that can be. So to a certain extent, that's good because you're being cautious. You're not just throwing it all like you're at the casino, but at the same time, hopefully, we can get you to a place where you feel comfortable enough to make progress.

Speaker B [00:02:32]:

Because you don't learn how to ride a bike by reading about it. You learn how to ride a bike by riding a bike. As far as the different exchanges you could buy at, I only do stock picks that are either on the Nasdaq or the NYSE New York Stock Exchange. To me, I feel like that's in my wheelhouse. I'm A-U-S. Citizen here. I have full faith in the way those are regulated. And I feel like my rights are protected as A-U-S.

Speaker B [00:02:59]:

Citizen. For other people, they might feel differently. If it was me, I would try because the context is coming from a place where I'm just gathering information, gathering information, not making progress. I would probably try to find the lowest bar to jump over and jump over that bar. So meaning if it's the easiest way to

get started is through the London Stock Exchange, I would do you know, obviously I have stock picks. I release those trying to beat the market. That's my big life passion. But that doesn't mean it's right for you, particularly if you're only comfortable buying London Stock Exchange stocks.

Speaker B [00:03:37]:

And I don't recommend those. So if you're just starting trying to get started and this is a hurdle for you, get rid of the hurdle. Make it super easy, buy whatever comes easiest, and then hopefully, as you start to make momentum, it'll be like dominoes, and a lot of your fears can start to go away once you tackle different problems. But if you constantly think about the problems and never actually push against them, I don't know how you can make progress doing that.

Dave [00:04:06]:

Yeah, that's great advice. So let me ask you this question. Let's say that Josh is like, okay, the bar is probably easier for me to buy something on London Stock Exchange. He doesn't have to put every penny he owns into not. I think some people are afraid because they think when they pull the trigger that they're locked into that forever. And whatever choice they make, right or wrong, is going to decide their future result.

Speaker B [00:04:31]:

Right. And it totally isn't. I mean, we try to talk as much as we can about it until people get crystallized because they're nodding off. But it really is about the habit. It's not so much about any individual investment you'll make. There are certain principles you want to follow, like don't put all your eggs in one basket. Diversify don't put everything into one stock. But as you apply that and you do it over time, you're building a habit where you're learning how to save more than you're learning how to spend less than you make.

Speaker B [00:05:05]:

And in that, save enough that you can invest it and not have to touch it. And when you invest money and don't touch it, you can really get some magical compounding like a snowball. The longer and longer. You cannot touch it. But that's not easy and it's not taught in school, and it's not something that comes natural. And frankly, it's hard because it requires making sacrifices, because that dollar that you're investing could be spent a million different ways that would be much more rewarding than just stocking it away and not seeing

the instant gratification. So it's hard, but think of it as a habit, and that's what's important. Not so much to your point, Dave.

Speaker B [00:05:47]:

Not so much that I have to have this money I'm putting in. It needs to be the best performing thing ever, and I can't lose money on it. You're missing the forest for the trees. We're trying to run a marathon here and trying to have a perfect sprinting stride. I don't know. I don't do marathons. Trying to do it perfectly right out the gates. It's not realistic and it's not how you'll get the results.

Speaker B [00:06:06]:

How you'll get the results is over time with a sustainable investing habit.

Dave [00:06:11]:

Amen. That is in a nutshell. I think the best way to think about trying to step put your toes into the water to start investing and realize that the first company that you buy is not going to make or break you. And most people, including Warren Buffett, probably do not own still own the first company they've ever invested in. I do. I know andrew does. But I think that's more rare than common. And a lot of times the usual advice is to buy something.

Dave [00:06:45]:

You know, a lot of times the thing you may know may not always be the best investment. Doesn't mean it's a bad company, doesn't mean it's bad product. It just may not be a great investment at that particular time. And so I think a lot of people are afraid that they have to be perfect before they pull the trigger or they have to know everything you don't. And you're going to learn way more once you get skin in the game and jump into the water than you will thinking about it or reading about it ad nauseam. Because experience is probably the best teacher. And like Andrew said, building the habit is the far more important part of getting started than picking the perfect companies, because you can overcome making a mistake or six when you start investing because it's natural. We don't all pick great companies.

Dave [00:07:32]:

I was talking in the last show about my first pick being great and the next two being complete dogs. I mean, literally lost 80 90% for investments. So dogs, bad investments, bad choices. But it didn't stop me. And I think that's what you need to realize is that you're going to make mistakes. It's okay. And even Warren Buffett has a 50 60% hit rate on investments that he chooses. And Peter Winch said if you can do a 50 or 60% hit rate, that makes you a great investor.

Dave [00:08:02]:

So I think we need to understand that even our heroes are not 100% perfect. And don't let that prevent you from starting. And like Andrew said at the beginning of this, find out the lowest hurdle that allow you to start picking. And if the London Stock Exchange is the place that you want to go, then do it. And if you live in another part of the country I'm sorry, the world, and you want to start investing in a local company on their stock exchange, do it. If you're in India, do it. I mean, there's no reason not to. You can always come back and buy from other index at another time, but whatever you need to do to start, start.

Dave [00:08:37]:

All right, so let's get back to the second part of Josh's great question. So, finally, I know you encourage your followers to invest 150 a month into our portfolios for a beginner. Is there any advice on how that should be spread out? For example, when I subscribe and see your monthly pick, should I keep investing 150 into that company until a certain amount and then move on, or split it into two different companies and keep doing that for so long? I imagine this is where the diversity comes in. I hope you found time to read through this and have some advice. I'll keep listening to the great podcast in the meantime. Thank you, Josh. So, Andrew, this is another fantastic part to Josh's question. So what are your thoughts on this part?

Speaker B [00:09:15]:

I'm going to make some assumptions here, because when I do so then helps us frame why I'm giving this answer. So the first assumption is you're in the accumulation phase of your investing, not in the harvesting phase of your investing. So you're building up, hence the $150 a month. The other assumption being you have a long time horizon. We're not talking about putting money in and trying to take it out next month or next year, but holding for the long term to let the stock market, let all that volatility ride out. So you can have long term dependable returns with all of that in mind. If you have that long time horizon, then you don't have to have diversification right off the gate. So I've talked about in the past, when I was a beginner, something I

did was I had a big sum of money and I split it into ten months because the magic number ten, because it was a round number and it was easy to remember, divide by ten, I didn't have to do some complex math.

Speaker B [00:10:14]:

20,000 divided by ten is 2000. All right, cool, we're in it. So you can do something like that. And it was literally just one stock pick every month, so sure. On month one or month two, right at the beginning of the race, I didn't have diversification. I had all that money in one stock, two stocks, three stocks. But since I spread it out over ten months by month ten, the first year of maybe a 40 year journey or longer. I had 10% diversification with each stock.

Speaker B [00:10:46]:

So I understand wanting to get diversification and wanting to feel like, oh, I have the best optimal portfolio right now. But when you're in the building stage, you're in the accumulation stage. There's no such thing as a perfect portfolio. You just got to try to find good investments where you can and hold them for the long term. And I look at my portfolio and I'm like, man, I feel like I have too much of this sector in there, or feel like I've not enough of that sector in there. But then I have to remind myself, you know what? I didn't see good opportunities in, let's say, the healthcare sector when I had a lot of capital to invest, and that's okay because I can make higher returns the places I did put the capital. So I feel like hopefully that helps alleviate some of the pressure you might be putting on yourself to feel like you have to get everything perfect. You can really cobble this thing together and build a lot of wealth for yourself and do very well.

Speaker B [00:11:39]:

I know emotionally, I'm subject to this just like anybody else. Emotionally, if you put $1,000 into the market and you lose 500, that's going to hurt really badly. But then on the flip side, you'll go buy, like, a $40,000 car and not think twice. And if you think about it, that's a way worse financial decision than actually saving and investing your money and building for the long term. So try to frame it in that way if you can, and give yourself some grace. Like, look, not going to get it perfect. We all screw up. That's part of the game.

Dave [00:12:09]:

Yeah, it totally is. And how would you tell somebody as they're just starting out, maybe to dig into Josh's question a little bit, give you a couple of hypotheticals. So let's say that you just started out and you've maybe done. You've picked three different companies, and now you're at month four, and you're struggling to find a good idea. But maybe the first company you picked, I'll just pick a name, visa, maybe. Visa, the first company you invested in, has now dropped in price, and you feel like it's a really good value. Would you suggest that they buy that again that soon? Or should they continue in the accumulation phase of trying to just gather a bunch of numbers? Or should they look at what they have and use that as an opportunity to get more of a better company, understanding that you have time to kind of build out that diversity, I guess.

Speaker B [00:13:03]:

So we're asking if somebody's just starting out, they're literally about to buy their fourth stock. Yeah, I would say probably move on, because there might be something about Visa that you're not aware of, and maybe it's not visa. Maybe we're talking about like Target or, you know, where there's something under the surface and you think it's a really great stock, but you're basically throwing bad money after bad money. As somebody who's three months in, you don't have much experience with picking stocks. That's what I would think. Try to get to your full diversification first, and then you can start playing with those ideas. Maybe if you've been investing for five years or something and you can understand, okay, I see a dislocation between how a company like Visa is actually performing and how the market is failing to recognize that, then that's maybe a different conversation. But for somebody who's first starting out, I would say just try to just get to that full diversification.

Speaker B [00:13:53]:

It'll feel good. It'll feel like an accomplishment, and it is an accomplishment. And as you gain more experience, you can take advantage of those kind of drawdowns, I think, a lot better and more effectively. In theory.

Dave [00:14:05]:

In theory. Yeah, in theory. Everything's in theory. All right, let's maybe back up just a bit for maybe people aren't quite following the portfolio idea and maybe the diversification idea. Where at what point is there an air, quote, optimal place that a portfolio should be as far as maybe different companies you own? And what qualifies as diversified? At what point would you qualify a portfolio as diversified?

Speaker B [00:14:35]:

That's a great question. It is very subjective. One of the big rules of thumb for stock pickers is a portfolio of 15 to 20 stocks is diversified. And there's academic research suggesting that that's kind of where that framework comes from, is these academic studies. They're looking at beta as a measure of risk. We won't go there. But 15 to 20, that's a decent framework. Ten stocks.

Speaker B [00:14:57]:

I like ten stocks. There's some old I don't know if it was like in a fable or something, but I thought I remember reading something saying like, divide it by ten. I've also read divide by eight, divide by seven or even eight. And I think that's a good rule of thumb too. Personally, I've had as much as 30 heard arguments for 100. Some people say 500, just buy the S and P 500 and you can get that diversification. So they're really talking about buying an index fund. Some people, that's not enough.

Speaker B [00:15:27]:

They want to own the whole world. And so just understand, the more diversified you get in general, the higher your floor, but the lower your ceiling of returns. And so that's kind of why you might see somebody be more aggressive and have only ten stocks, because they're really trying to get that higher return, but they might also have a lower return than somebody who's doing like 25 or 30 stocks. So I don't know if there's like an easy answer for it, because as you build and you accumulate a portfolio, it can start to look differently. I'll say, now I've got a top ten, which I track in Value Spotlight. What are my top ten positions? And right now, they make up about 62% of the portfolio. So you really have ten stocks driving a lot of the overall performance. And I almost look at some of my other stocks that might make up, like, half a percent or percent.

Speaker B [00:16:22]:

I almost look at them as, like, my farm system. Like, in baseball, they have players who are not on the team yet, but they're in minor leagues, and the team is watching them. And if the opportunity is there for this minor leaguer, he's going to jump up and get the opportunity to play in the big league. So on a similar token, I might buy something that has a really small position size, and so it's not contributing much. But as I get to learn

that company and then if that stock crashes, in theory, I'm able to load up the truck and really make that thing a top ten position when it's a really good deal.

Dave [00:16:57]:

Yeah. I love that idea of the farm system. That's awesome. I was reading recently that Warren Buffett, his portfolio, his top ten stocks make up 83% of his returns right now.

Speaker B [00:17:09]:

Wow.

Dave [00:17:09]:

Yeah. Huge. I mean, Apple is driving, like, 50%. That's some serious concentration. And Charlie Munger. He owns four companies. That's it.

Speaker B [00:17:20]:

Yeah.

Dave [00:17:21]:

That's, I think, the ultimate in concentration. I'm not that good.

Speaker B [00:17:24]:

Well, he also has a very big influence in how one of those companies are run, being the vice chairman.

Dave [00:17:30]:

Yeah.

Speaker B [00:17:31]:

He kind of has the CEO's ear on that one.

Dave [00:17:33]:

Yeah, a little. Yeah.

Speaker B [00:17:35]:

He might be on Costco's board of directors.

Dave [00:17:37]:

He is on Costco's board of yeah.

Speaker B [00:17:40]:

So he has their ear, too.

Dave [00:17:41]:

Yes, he does.

Speaker B [00:17:42]:

Okay.

Dave [00:17:43]:

Yeah. So he has some influence on some of those things for yeah. Yeah.

Speaker B [00:17:47]:

He's also at a different point than a lot of investors because he's got more money, probably, than he could spend.

Dave [00:17:53]:

Yeah. Completely different circumstance, completely different situation than vast majority of us.

Speaker B [00:17:59]:

Yeah. What are your thoughts on portfolio construction and have those changed over time?

Dave [00:18:04]:

I think they've changed. I think they've morphed a little bit. I think I used to be you had to be in the 2025 range, and I currently own 1617 stocks, I think 17. I feel like maybe I get two or three more, and then I'm going to be probably good, I think, based on I need to get more diversification because I went down the payments rabbit hole a little bit too deeply and got a little bit too much in there. So I need to start to diversify away from that a little bit, and that may take me either to sell a position or two or to get some other ones in there to help kind of offset that. But I think I like what you were saying, and I think the ideas of building what you feel comfortable owning and being able to understand what it is you own. As somebody who does this full time, trying to keep track of 16 to 20 companies is a lot. And so the idea of doing 50 or 100 is beyond me.

Dave [00:19:07]:

I don't know how those people do that. But I think once you get to the point of having diversification and you have enough of the asset classes that you can own, when you can own them, because kind of like to what you said earlier, you can't just force it. You can't just buy real estate because you have to have it. It should be something you get when it works for your portfolio, not when it's like, I got okay, I got all the seven slots filled. I just need this one kind of thing.

Speaker B [00:19:37]:

Right.

Dave [00:19:38]:

I'm not a fan of that, but I think trying to build the portfolio to where you feel like you can manage it, you understand the companies, and it provides you enough diversification to make you comfortable at night. I think it's going to kind of range between people, but I think 15 to 2025 is probably a good place to be. I know Warren has mentioned several times that you should buy stocks with a punch card, and you only get 20 punches. And for life you only get to buy 20 companies. That make you think a lot more about your decisions. But I think the idea of having up to 20 companies I think is probably a good place, especially for a beginner to work towards getting there, but understanding that it's going to take time and that you need to be patient as you get there. But I like your ideas, and I think the way that you have built your portfolio I think is a great way to kind of emulate and think about what's going to drive it. And I love that idea of the farm system.

Dave [00:20:36]:

I hadn't thought of that before, but I think that's probably a great way to think about it. The companies that are really driving your portfolio, you really need to understand what it is they're doing and then understand who the potential up and comers are that could be to replace. Because the one thing we always have to understand is that I was reading this great paper by Michael Movison this morning, and he was talking it focuses on lifestyles of businesses. And without going into all the nitty gritty of the paper, the basic gist is that no company is going to stay in a certain lifecycle, part of their life cycle. They're all going to evolve. Some may go from starting out to ending really quickly, and other ones will go through a more gradual phase, but they all go from beginning to end and no company will last forever. Yeah, there are a few that have been around for 100 years or 150 years in the United States, and I think there's one in Japan that's been around for five or 600 years. But the point is that most of them will go in and out in 2030 years or maybe longer, depending on the quality of the business.

Dave [00:21:38]:

But the point is that you have to understand where you are in the lifecycle of that business. And like Andrew was saying, the star players at some point will have to retire. And you need somebody to kind of come in and take that star player over and by looking at understanding what you own in your portfolio, and maybe Company C is only one and a half percent, but it's a growing business with a strong management team that could be called up to the majors at some point. And you could add more money to that part of your portfolio and continue to increase it, maybe as Company A is starting to get into the mature years and they're losing a little bit of zip on the fastball. So I think that's a great way to kind of think about kind of the evolution and the creation of the portfolio. I really like that.

Speaker B [00:22:20]:

Makes me want to watch the wild card.

Dave [00:22:23]:

Yeah. Now the real games are going to start, right? All right, so let's move on to the last question. So we got how do I research a company's past financial information as well as their potential growth once that company decides to go public? Where can I find the metrics? Thank you very much, Brian. So Andrew, what are your thoughts on Brian's question here?

Speaker B [00:22:41]:

Yeah, I mean, there's a lot of great tools out there you could use. One I've talked about a lot is QuickFS, Net. They have ten years of financials right there. You put in the ticker and it shows you potential growth. That's a whole nother discussion. But if you're strictly looking for past financial information, you could try Quickfst Net Finviz Net, which is website I've talked about since the beginning. They give you a few key metrics that you can use that are based on past financials. And then there's a few others I know you'll probably share those too.

Dave [00:23:13]:

Yeah, the two that I probably use the most, well, I got three that I use the most. The first one is stratosphere IO. Our friend Braden created this fantastic website that has 20 plus years of financials on there, all the metrics you could want. KPIs, it's a great website and it's really great place to research the past financial

information over a longer period of time, which is really what you want to do. The other website I would suggest would be Bamsec.com. That's a great place to look at the actual company financials. So the ten K, the ten Q, Proxies, earnings reports, all that stuff is all right there at Bamsec. And although when you look at Visa's current ten K, you may not be able to see ten years.

Dave [00:23:55]:

You can see three years. The income statement, the cash flow statement and only two of the balance sheet, but those are the actual numbers. It's not from a website. So it is the true source data and it is essential reading if you're going to learn more about Visa. So I think that's a great place to start. And the other one that I've kind of started to kind of embrace too is Quarter. They're a great website to help you learn more about the earnings calls, but they've also been kind of branching into all the other calls that you can do with the companies as well. So from the investor calls to the company, they go out and do roadshows if you will, and talk to investors at different conferences and whatnot.

Dave [00:24:33]:

And they have all those recordings as well and they have some great charts as well. So it's a great place to kind of really dig into what management has to say about the company. It's not necessarily related to the financial information per se, but it can certainly give you a lot of great insights into why Tesla is doing as well or poor as everybody thinks it should.

Speaker B [00:24:52]:

Yeah. I love quarter. I'm on there so much. They have a fantastic app and you just type in the company and you got the earnings call and you plug that in and go on the drive and you're getting download to so much information. So I know they're quartr.com. I also use Bamsec like every day. And Brain Strasphere, he actually has that top ten holdings. When you look at the different super investor portfolios that he has on his website, that's a really cool way to see kind of fact check what you and I are saying.

Dave [00:25:26]:

Right, right.

Speaker B [00:25:27]:

Oh really? Does Buffett really have 10% of his holdings as so much of his portfolio bet? And you can look and Brain's website shows you top ten concentration. I think a lot of the big investors have pretty high concentration there. Top ten.

Dave [00:25:43]:

Yeah, for sure. I think those are all fantastic places and they can definitely get you started down the path of what you need to do. They all have paid tiers, but they also have some free tiers, free tiers as well to help you get started to get your feet wet and see if these are things that can be helpful for you. They all have the metrics that you want. Return on invested capital, return on equity, PE ratios, price to free cash flow, debt to equity, all that fun stuff.

Speaker B [00:26:11]:

Yeah, I think if you like to look at charts, I think there's nothing like Stratosphere. You click on the metric and the way that it's so easy to manipulate that to show you a chart, you can quickly visualize things, right?

Dave [00:26:26]:

Yeah, very quickly. And one of the little things that I like about it is that it not only shows you it in a graph form so you can kind of visualize it, but. They also calculate the CAGR so you can see what kind of return the revenue has gotten, for example, or what kind of return the earnings have had or anything. And you can kind of layer all those things on top of each other so you can see kind of the impacts of revenue to operating income, to net income, to free cash flow and you can kind of see how those have all grown and you can overlap it. So it's very visual. And for someone who's a visual learner like myself, it's very helpful to see like, oh, that's really great, or OOH, that's really bad.

Speaker B [00:27:07]:

Right. What about the whole potential growth idea that's its own can of worms.

Dave [00:27:13]:

Yeah, that really is, I think with the website information, like how do you research that? I think the way that you have there's a lot of different ways you can go with a potential growth. I think probably the first place that I would want to start would be to think about what the industry, the company is in and what management is saying about their potential and what the triggers are for that potential. And I think if you can understand those or at least have a grasp on those, then I think you can go and try to project potentially what those are based on a few simple metrics. What are your thoughts?

Speaker B [00:27:55]:

I agree. Can you give us an example?

Dave [00:27:58]:

Sure. So I think if you are going to look at Visa, for example, if you're going to try to determine what kind of growth can the company expect going to, you'd have to know what the company does, understand their business and their business model. And then you would have to listen to the management talk on an earnings call on quarter, for example, would be a great place to start and focus on what are the things that they're talking about the most? Most earning calls have two sections. They have a prepared section and then they have an analyst section. The prepared section is where management gets to talk about what they want to talk about. And then the Q A is where analysts get to ask them all kinds of sometimes really great questions, sometimes really dumb questions, but they will talk about most of the time those things will focus on the things that they find important. So for Visa, things that they'll find important are users spending on their card, like how many times are the cards being used? Something like cross border payments, which means when they're using the payment outside of their home country. So if they're an American and they're in Europe and they're spending on their trip to Italy, for example, which is where apparently everybody went last year, if you did that, then that income that they see is higher than it is if they spend it here in the United States.

Dave [00:29:16]:

And so that's a big growth driver for Visa and the other thing would be a newer product that they just rolled out called Visa Direct. And if you understand that those are maybe the three triggers for the business, then

you could analyze looking at the growth rate of cross border payments, look at the growth rate of what the company is seeing as far as people, more people using their cards, and then looking at the growth rate for Visa Direct. And then you could kind of use that to try to project what you think that's going to happen next year or five years from now, understanding that these are only projections and it's only based on what you think is going to be the best possible growth, and you have a high likelihood of being wrong. So then it's just a matter of trying to determine, what do you think those growth rates are, and then looking at their past and kind of projecting that forward. So if their cross border payments have been growing at, let's say, just an easy number, 15%, and you think that the company and you think that that's going to continue, then you could project that that part of the business would grow 15% next year or maybe over the next five years. And it's kind of the same with user cards. If they've been growing that at 12%, then projecting twelve to 14%. If you think that's going to grow and the company says it's going to grow, then I think gradually booking that up I think would be appropriate, or at least not crazy.

Dave [00:30:45]:

And kind of the same with the Visa Direct. That's a faster growing segment. So applying a faster growth rate to that would probably be logical. Understanding that that could be also the most volatile of the three because it doesn't have as long a history and is again just a projection. And there's no guarantee that they may have hit a wall. Maybe they've saturated their market now, and the 30% they saw last year is not what they're going to see going forward. But those are things you'll see as time goes by. So does that help answer the question?

Speaker B [00:31:17]:

Yeah, I really like what you added there at the end is a question you can ask is, are they saturating their market? You take a big company not to pick on Amazon, but I feel like they're one of the most obvious examples. Are they going to grow sales at 20% a year for the next ten years? And I think we've shown that if you do that, you're eventually going to be bigger than the world's GDP just because they already are at such a high number, 20% on top of 300 million, the numbers start getting ridiculous. So to the whole Visa direct thing. If you can somehow get an estimate of what that market is and see, okay, could they grow at 30%, or is there an obvious physical constraint to that I think could be very valuable to somebody who's trying to project? Because I feel like it keeps you away from some of the cardinal sins that you can make when you're trying to look at the past and try to project the future.

Dave [00:32:17]:

Yeah, for sure. I think one of the things that I think about with this is think about what is the potential opportunity. I hate that word tam because it gets abused. But if you think about what the potential could be for a particular company and then you think about, okay, what are the revenues that the company is generating now? And you can kind of see, okay, how big of a potential opportunity could that be? And if the company is generating 25 billion in revenue but the overall market is 200 billion, then the company is obviously a much smaller piece of that pie. And if they are taking market share from other companies then you could reasonably expect that that maybe could continue for a certain while. It won't continue forever because other competitors are going to come in and try to undercut and do other things to try to take market share for them. So it's definitely a complex system and it's definitely a moving target. But I think when you're thinking about projecting any sort of potential growth, you have to take some of that into consideration, understanding that it's going to be fluid and understanding that it is not an exact science.

Dave [00:33:23]:

And if you're looking for an exact number, you're barking up the wrong tree because it doesn't exist.

Speaker B [00:33:28]:

No, it doesn't. I mean, we are talking about the.

Dave [00:33:31]:

Future after all, right? None of us know the future. My crystal ball is very hazy and.

Speaker B [00:33:35]:

A lot of crack because you mentioned the loaded word tam. I would just caution if you are going to go that way, try to make the estimate yourself instead of relying on what management will say. Especially if they're on a roadshow and they're trying to get investors and they get paid to get investors to buy their stock. So one way I tried to do this with a company called Texas Roadhouse, they have steakhouses was I wanted to see, okay, I have a certain number, I think they're going to grow their units and is that a reasonable tam. So rather than listen to what an analyst or a management might say, I looked at what's another similar company there's outback in 2012 they had 771 restaurants. So if I make my number of units estimate for Texas

Roadhouse that someday they'll get to 770 ish units, what's the growth rate on that over the next ten years? And am I estimating that to be too high a growth rate that I'm estimating that they're at 2000 restaurants when that would be an excessive amount of steakhouses? I did something similar with Costco too. Or they're doing expansion internationally. So they have a certain number of warehouses.

Speaker B [00:34:55]:

They might have per number of people in a town is their population to expand to in some of the countries that they're going into? Are there big cities there? And if that's the case, what's the growth rate on that? So you can really get into the weeds on some of this stuff. But I think the more of that work you can do and kind of flesh out and see those facts that you came up with yourself and you didn't rely on somebody else for, I think it can help with feeling confident about am I buying this investment with a margin of safety?

Dave [00:35:30]:

Yeah, that is a great way to think about trying to project a potential growth rate for a company and using that kind of logic and reasoning and idea, I think is a great way to really protect yourself. And I just want to throw this out there. Andrew mentioned the whole roadshow when Uber was going public. They told the world that their potential market that they could serve at some point in the future was the whole world. And so that was a little extreme, and that is certainly not playing out to be the case. And so not saying that Uber is a bad company or a bad investment, I use their product all the time. But the point is that management tends to be a little exaggerative sometimes. So you need to make sure you rein in the enthusiasm, especially when you're doing this kind of work.

Dave [00:36:25]:

And I think the depth of knowledge that Andrew was just kind of weighing on you, on how to go about doing that, that's the way you should do it. That should be the guidepost of how to do this.

Speaker B [00:36:34]:

Sweet.

Dave [00:36:35]:

All right, everyone. Well, that will wrap up our show for this week. Don't forget to subscribe to our show on your preferred podcast app. If you enjoyed our little show, if you would kindly consider giving us a five star review, it greatly helps our show. And don't forget to browse the incredible materials we've created for Einvestingforbeganners.com. Lastly, continue growing your knowledge as an investing for Beginners Insider with insights and educational tips delivered right to your inbox for free. Sign up today. And with that, we will go ahead and sign us off.

Dave [00:37:03]:

You guys go out there and invest with margin of safety, emphasis on the safety. Have a great week, and we'll talk to you all next week. Bye.

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.