IFB315: Listener Q&A – Analyzing Rivian and Will They Become the Next Tesla in the Electric Vehicle Market?

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Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have episode 315. Today we're going to do a bull and bear case about a company. We got this great question, and we thought we would kind of do a little give and take. Andrew and I taking opposite sides of this particular company. So the question is here. Hello. I love your podcast.

Dave [00:00:20]:

Can you give your opinion on a Company Rivian? Their numbers keep improving, but the stock stock keeps suffering or stalling. How do I know the proper valuation of a growth company? So Andrew and I thought we would talk a little bit about the company Rivian and maybe give some input on why we think the company's numbers may be improving, but why it's not seeing the results in the stock market. So, Andrew, would you like to maybe start off and maybe give people like, a 30,000 foot view of what Rivian is and who they are?

Andrew [00:00:49]:

Yeah, happy to. This is going to be fun because I don't own the stock. I don't usually look at companies like this, but for the sake of argument, why not? So I'm not an expert on Rivian, and I'm literally taking ten minutes of my time to kind of just check it out. But hopefully that gives some perspective on how people can think about analyzing the stock as a beginner. So Rivian makes electric vehicle trucks from my to and not trucks. Actually, I think it's SUVs. I had to trucks and SUVs, actually. Okay, thank you.

Andrew [00:01:23]:

I had to Google what makes Rivian special, and that was actually very insightful for me because they have things like a really cool design. It reminds me of my old 1998 Dodge Durango. I was driving down the road. There was another car I Saw I can't remember, but it's just a real big, bulky boxy, almost like don't mess with me. Almost like a truck would tell you that, but in SUV form. And I think that's cool. But obviously people aren't just buying it because it looks like a box, but it's an EV, and it's supposed to be one of the better EVs. The range is supposed to be really good, especially for an SUV.

Andrew [00:02:03]:

It's supposed to be 300 miles of range, and the charging is supposed to be really fast too. So it sounds like a lot of the reasons why, if you would like an electric vehicle in general, this is the next logical progression. And I'm just not sure if there's competition from, let's say, Lexus or BMW or some of those guys. You wonder if somebody like a Rivian who's, starting from scratch, will be able to make better production lines and basically have a better long term trajectory, kind of like Tesla did than some of the legacy players would. So if you're betting on Rivian, you're kind of betting that they're going to take the Tesla Playbook and use that to find massive, massive success that's kind Of How I See It. How do you see it?

Dave [00:02:49]:

I Think one Thing I Wanted To, I guess, back Up A Little Bit On The Company. They IPOed a Few Years ago, and It Was A Huge IPO success, at Least For The People That Own The company. When it went IPOed. I think when it first IPOed, it was trading around $100 billion in market cap. So it was a huge number, if I remember right. Can't hold my feet to the fire on this, but I think that market cap was bigger than several of the Legacy car dealers or car makers at that time combined. So it was a huge number, and there was a lot of controversy, shall we say, about that, because at the time, the company wasn't generating any revenue or very little revenue. Because I don't believe they even had any cars or very few cars or vehicles that they were actually selling.

Dave [00:03:39]:

So it was very much a speculation on the potential for what this company could do. And I think that's what people were betting on. But since then, it's seen a huge drawdown since those early highs. And now it's trading around $20 a share, give or take. And so it's come back to earth quite a bit from its highs of $146. So its CAGR since then is negative 57% So not the greatest returns. If you had bought the company at the IPO So I think this is probably a good illustration of why investing in IPOs, especially at the beginning, can be so hazardous. So I guess those are a couple of thoughts.

Dave [00:04:20]:

So I guess a couple of things about the company that make me a little more bearish, if you will, is they are competing against some legacy players that I think are they may be behind Tesla, but I feel like they're ahead of Rivian. And when I throw out Ford, for example, with their F 150, which is the most popular vehicle in the United States for gas powered, they are now making those in electric as well. And I feel like that would give them a leg up on Rivian because they're already in production and making a ton of them and putting them out there. And so I think that as well as other legacy car makers starting to kind of convert all of their fleets to electric options, I think that probably puts Rivian a little bit behind. I guess the one thing that I feel like Rivian might have an edge on other companies is that this is more of a luxury vehicle. I feel like the lowest price vehicle that they're offering right now is around 70,070, 3000 for a truck, which is quite a bit more than some of the Teslas. The cars. I'm not sure about the cyber truck.

Dave [00:05:27]:

We're not sure where the cyber truck is kind of at the moment in production, if they're actually making them and selling them or not. But I feel like that Rivian is maybe vitali. Katzenlsson was on our show a while back, and we were talking to him about Tesla. It's something that's kind of always stuck in my head when I think about auto manufacturers, car dealers, car makers, is that no matter how fancy the cars are, whether it's electric or whether it's an ice vehicle, internal combustion engine, kind of gas powered vehicle, they still got to bend metal. And you got to build plants to bend metal to put out enough vehicles to meet the demand. And I just worry that a company like Rivian, who's probably making great vehicles, I'm not disputing that, but I worry that maybe they're a little behind the curve on catching up to a Tesla, potentially with their cyber truck and also Ford with the F 150 and any other vehicles out there. I worry that they could be kind of behind the curve because you can't make the cars out of thin air, and you got to have factories to produce them and get to the factories. You got to have money, and you got to have money to build the factories.

Dave [00:06:31]:

So I guess those are some of my, I guess, initial concerns with Rivian. What are your thoughts?

Andrew [00:06:36]:

Are you a car guy?

Dave [00:06:37]:

Not really.

Andrew [00:06:39]:

They have two options. They have a dual motor and a quad motor. The quad motor goes zero to 60 in 3 seconds. 800 horse. That is fast.

Dave [00:06:49]:

That's beyond Sandra's fast.

Andrew [00:06:51]:

That's fast. I mean, this is all on Google. So the extent of me being a car guy is I used to have a Mustang when I was in high school. So take all this for what it's worth, but Google a leg up on you. Okay.

Dave [00:07:05]:

Yeah, way up.

Andrew [00:07:06]:

Google is saying that the Tesla model three, this is from Quora. So, again, whatever. Tesla model three could go zero to 60 in 3.2 seconds. So if an SUV could outtake a Tesla model three, which I don't know if that's true or not my goodness.

Dave [00:07:22]:

Yeah.

Andrew [00:07:22]:

My goodness. Yeah.

Dave [00:07:24]:

That's really fast. Kind of speaking of that, I saw a video on Instagram not too long ago where they were kind of comparing one of the more luxury souped up electric vehicles to a Porsche. They were doing I think it was a mile race, and they gave the Porsche, like, literally like a three or four second head start, and this electric vehicle blew it away. It was like zero to 60, and I think it was zero to 100 in like 3 seconds or something crazy like that. They put the camera in the cockpit. Cockpit? Like an airplane, right?

Andrew [00:07:55]:

Or rocket.

Dave [00:07:56]:

You could see the guy's cheeks moving like he was like the g forces that were sucking his face in. You're like, oh, my, that's fast.

Andrew [00:08:08]:

Amazing.

Dave [00:08:08]:

Yeah, it is totally amazing.

Andrew [00:08:11]:

So what would be the next I mean, I think that's a good thing to think of when you're analyzing the stock, you want to look at how does a stock compare against its competitors and what kind of positives or negatives, what kind of advantages or disadvantages could it have to its competitors? So I think anytime you take on an incumbent, obviously they usually have more resources than you do. They usually have a lot more talent right at the company, a lot of these things. So what would be maybe the next thing you would look at, and we can use Rivian again as a particular example as you're trying to analyze a business like this.

Dave [00:08:48]:

Yeah, you would want to compare it to how have the competitors been doing, kind of where are they on the evolution scale? And we kind of talked through that a little bit. I think the other thing you'd probably want to look at maybe is I hate the word tam, but maybe more the opportunity that could be out there for this company. Because I think one thing that you have to realize in the competition of companies, when they're looking in a space, there's not always going to be one winner. It's not always going to know netflix is going to be the greatest streamer ever. There's going to be other people that can come into the space. And if it's big enough, there's a lot of people that could be successful in the space. And so if you look at just simply, again, just Googling, if you look at Google, google says there's about a little over 2 million electric vehicles on the road in the United States right now. If you compare that to how many vehicles the United States there are, period, it's around 292,000,000.

Dave [00:09:44]:

So it's less than 1% of all vehicles on the road are electric. So if we're ever going to get to the point where a lot of the people have prognosticated that at some point electric vehicles will completely replace or even half of Ice vehicles, then from 1% to 50% is quite a change to get to that many cars, not only just to produce them, but to sell them and have them on the road. They also noted in this little article that I was reading that the average lifespan of a car in the United States is around twelve years. So we don't burn through them quite as much as we think we do. It feels like we do. I guess that also means that there's a longer runway for this. And I know there's, without getting into the politics of it, I know there's a lot of people in the green sphere that are really pushing to try to have a larger portion of electric vehicles occupy the whole of cars on the road, 30, 35% in the next 710 years. I don't know if that's doable, but it does show you that there is a big range, big opportunity for Rivian to get into the space.

Dave [00:10:51]:

For sure.

Andrew [00:10:52]:

Yeah, that's a great point.

Dave [00:10:54]:

Yeah, that's probably the first place I would look. You can look at the financials of a company like Rivian. It's not really going to be a fair comparison to any of their other competitors just because of the sheer nature of where they are and where they're trying to go. And to be blunt, they're ugly. And the only positive thing that I really see well, the only two positive things that you see if you look at a really young, brand new company in the market that doesn't have a lot of market space isn't selling a lot of vehicles yet and is trying to get their foot in the door, if you will. You're going to see a lot of red. You're going to see probably big numbers in revenue growth. 100%, 1000%.

Dave [00:11:36]:

That wouldn't be unusual because you're starting from a really small base. But you're also going to see a lot of red, you're going to see a lot of negative numbers, a lot of unprofitability. That's to be expected.

Andrew [00:11:46]:

Yes, expected. So for Rivian, they actually beat your 1000%, almost 3000% revenue increase.

Dave [00:11:55]:

That's a big number. But it's also a really small number comparatively, of course.

Andrew [00:12:02]:

So I think that's one of the things where when I look at a hyper growth company like this is that's where it becomes not my cup of tea because I'm the type of investor who likes to play the odds. Like if I'm at a blackjack table, I'm laughing at you. If you hit on 18 or 19, you know what I mean? But that's not to say that sometimes you can't hit on 18 or 19. So a stock like this, I almost think the way you have to analyze it is different than the way you would analyze Facebook, Microsoft or Google because it is a risky business. They're basically in the same way a startup might have a really small chance of success, or a little podcast like ours might have a really small chance of success. There are winners that happen, but the statistics are rare. That doesn't mean there won't be winners. And so when you look at a stock like this, I think you have to really believe that, yeah, these guys are going to be able to execute even though the odds are against them.

Andrew [00:13:03]:

And that's worked for some investors. It worked for Ron Barron when he put 1% of his assets into Tesla. So it can happen. But I feel like if you want to do that in my mind, you have to have a really compelling reason why you think that this particular company can defeat the ODS. And I feel like you should have a really good understanding of the car business and disruption and innovation and technology and all those things. That's kind of how I would think of it on a broad overview. When I think about I almost wonder if the whole electric vehicles thing is analogous to the.com Craze, where to put on our history hats for a minute, because I'm sure that's what everybody wants is the flashback to their history class in high school.

Dave [00:13:46]:

That and accounting. They just love accounting.

Andrew [00:13:48]:

Good. We could start on that next. Maybe you can start talking about gross profit after I finish. Here my little spiel. In the 2000s, some of the biggest bubble stocks were Qualcomm and Cisco. And if you think about what they did, they were really laying the groundwork for the Internet. And it took I mean, when did Google and Facebook IPO 20, 12, 14?

Dave [00:14:12]:

Somewhere in that range.

Andrew [00:14:13]:

Yeah, somewhere around there. It took that long for a company to build off of the infrastructure that was built 15 years ago. So to your point, Dave, about this average lifecycle of cars, you wonder if some of the rise you've seen in Tesla stock, which has come down a little bit, and I'm not trying to say at all that it's a bubble. I don't think they're the same event, and I don't think it's to the same scale. I'm just trying to bring some perspective know, as Tesla builds out their supercharger infrastructure, as I'm going into my new construction home with my wife, and we have a little EV plug in inside our garage already for us, like ready for us, the infrastructure is being built. And I think a lot of that was driven by Tesla. But at the same time, to Dave's point, you have the realities that people hang on to their cars for a while, and you also have the realities that even one of the greatest innovations of all time, the internet companies like Facebook and Google and stuff, they know decade, decade and a half, two decades. But if somebody had the foresight and the fortitude to know exactly which winners were there, then that long waiting period was worth it.

Andrew [00:15:20]:

So that's I think something for investors to consider is like EVs kind of seem inevitable. The question is, what's the timeline? And the question is, do you think you have the core competency to pick the winner? And I bet somebody out there does. I bet there's at least one person that does out there. But it's a completely different ballgame than what you would do picking most of your average stocks. Yeah. So where would you look in the account? I know I just said want to look at the accounting, but there's got to be some things we can take away from their numbers other than it's red.

Dave [00:15:56]:

Right. There are a few things that I kind of look for. So when you're looking at a company like this that is not profitable, you have to put it in context of what do they have to do to continue to grow the business? And there are several things. Number one, they got to put out vehicles, right? So they got to make cars. So that means they have to buy stuff to make the cars. And then they have to have people to build the cars and sell the cars. So they got to have labor. You know, that those are going to be costs that they're going to have.

Dave [00:16:30]:

And they're going to be, to a certain extent, relatively fixed. And so at some point, you would hope that those numbers would even out or leverage out. It's understandable that if you see the company negative for a while, I don't think this is something you're going to see overnight or even maybe in five years, that it'll be an overall profitable company. But you would hope at some point that the gross profit would be in a positive realm, because that would indicate that they're generating more revenue than it cost them to build the cars. And that's a big one. And if they can get over that hurdle, then they can start working on the other parts of the income statement to try to get to those places being profitable. One thing that kind of just occurred to me in thinking about this. If you look at the last 1012 years of Tesla, for example, a good portion of that was negative when the company went public.

Dave [00:17:25]:

It was gross profitable. At that point, they were generating enough revenue to cover the costs of building the cars, the metal, the electronics that they have to put in the cars, the wheels. I'm not a car person, so forgive me. But my point is that we're kind of seeing a lot of this stuff usually goes on behind the scenes when these companies are private. So you see all this really ugly financial stuff when the company is private and they have to raise capital to have money to go buy the things. And that's kind of what Rivian kind of did it in a reverse. They started with nothing and are building in public. And that's a harder place to be because you can get a heck of a lot more criticism for sure.

Dave [00:18:10]:

But at some point so when you look at the gross profit part of the company, and that's the top part of the income statement. So when you look at the revenue and then the cost of goods sold, the next line item is a line item called gross profit. And that tells us that they're making money from selling the cars. The costs that are associated with building the cars, whether it's the products themselves or the people that build them, those are those costs. And those are relatively fixed. And then if that's negative, that means they have to raise money. Because you can't go out and buy metal to build a car without a check. So you either need money on your balance sheet, which is what Rivian has.

Dave [00:18:54]:

When they went public, they generated a lot of cash from going public. And they have around $10.2 billion sitting on their balance sheet that they can use to help them go buy more stuff. To build more trucks. And so that's great. But the problem is that at their current rate of burn over a year or two, that's going to be gone. And so then that means then now they're going to have to start doing other things, which means raising money in public or selling equity. And the selling equity part is not the great part because then they start diluting the current shareholders and so the shareholder base gets bigger and your ownership gets smaller and you never want that. And so that's one of the dangers of investing in a young company like that, is you will see dilution, you will see the share count grow because that's what they have to do, is they have to go out and sell those shares on the market to generate cash to go buy the stuff to build trucks.

Dave [00:19:50]:

And so those are things you just have to understand. It's a reality, I'm not being Mr. Negative, it's a reality of the business. And that's what they're going to have to do to build more trucks. And the revenue growth is great. And as long as they keep that up, they're going to get where they need to go. The cash on the balance sheet is great too, but at some point that's going to run out and then they got to do some other hard choices. And that's where investing in a young company, like Andrew was saying earlier, can be a challenge because you don't know if they're going to be able to get what they need.

Dave [00:20:21]:

Then it becomes a lot harder. Elon Musk has talked about, I think there was a story in a book, I can't remember where I read this. No, it was wondry business wars. They were talking about the next day have to declare bankruptcy. And he had a meeting with an investor who gave him the money he needed in the ride into Tesla. And that was a make and break moment for Tesla. They were on the verge of declaring bankruptcy, but he was able to convince this guy by riding in their car to give them the money they needed to keep going. And so it's not an easy game, it's really not.

Dave [00:20:51]:

And that could be a cliff that Rivian encounters sooner than later.

Andrew [00:20:56]:

So again, this is just all surface level stuff and I'm just pulling up the company on Bamsec, but their most recent eight K for Rivian, which I think is very interesting and could give them a financing advantage over the legacy automakers. They just priced 1.5 billion in green convertible senior notes. So basically they're using government I don't want to call it government funding, but it's a special type of debt because it's green Focus, it's for electric vehicles. So they're able to raise this was in October 5. They raised 1.5 billion on a 3.6% interest rate. It is convertible. So. I mean, you do get dilution, but that is a favorable interest rate for the operations of the company.

Andrew [00:21:42]:

GM raised 2.25 billion at about 5.4%. So Rivian is getting a lower cost of capital. If you just talk about interest rates, you don't talk about the convertible part because they are all green. And I wonder if some of the legacy automakers don't qualify for that financing. Because they're not. So that could be a bullish argument for a cost of capital advantage. But again, just because you have access to capital doesn't mean that a company is going to do good things with it.

Dave [00:22:13]:

Right?

Andrew [00:22:14]:

You definitely need to be headed by the right management, who is making the right decisions and putting the company in the right positions to succeed.

Dave [00:22:25]:

Right. Yeah, exactly. That's a very good point. Something that I guess I've been wondering too as we kind of talk through this idea of rivian, is I wonder if maybe because they're coming up behind Tesla that gives them a bit of an advantage for a newer electric vehicle because Tesla is doing all the hard work of basically building out a demand for electric vehicles and creating a citement about them and a feel like a need for them and also building out the infrastructure. Like you were talking about your new house being built with an EV adapter being built into your house. That really is because of the popularity of Tesla and the potential for other companies that rivian they don't have to go through that headache of having to push all that. And the one thing I don't know about them, so I will freely admit my ignorance, is whether or not they are building out their own charging network or if they're going to work off of the back of what Tesla is already created and is creating. I know that's an ongoing process.

Dave [00:23:32]:

I know the US. Government is trying to encourage more electric vehicle charging stations across the country. Like there's a gas station. Like there's a Circle K on every corner. I know they're trying to get that with electric vehicles, too, but I'm not sure how much of that is on the back of what tesla has already done or is doing and what the government's doing. And I'm not sure if Rivian can just kind of surf along top of that, so to speak. That's one thing that may give them advantage over a Tesla, because they're not the first mover they're coming in behind, and so they don't have to do as much heavy lifting on that end.

Andrew [00:24:09]:

Yeah, and I don't know the answer to that question either. And that would be something. If you are looking at a company like this, it should be able to oh, yeah, I know that answer really easy. I never thought about it until you said it. I thought it was so brilliant. Like we're seeing a company that's in real time, going from idea stage, really, to hopefully trying to be profitable. And we're seeing it in real time publicly, through these financial statements where I don't know if we've ever seen anything like that before. And to your point about the difference between them and Tesla, so I look at this is just something in their ten k when they're talking about why they have negative gross profit.

Andrew [00:24:51]:

They said they did an increased production delivery of 23,000 vehicles. That was the most recent quarter. And then so I was curious, okay, so what was Tesla like? This is Rivian's second annual report that we've seen publicly for Tesla. We look at their second annual report. They were targeting an annual production rate of 10,000. So they didn't say they delivered. So I'd be curious your take on that, because the way I read it, I could be wrong. I mean, I don't know why I don't work at the company.

Andrew [00:25:23]:

I don't know why they have negative gross profit. I just speculate. And I wonder, are they building out capacity for way more cars than Tesla ever did? And is that why they have negative gross profit where maybe Tesla took a smaller bite in its capacity investments? Because I think there's a lot of fixed costs in the production of a gotcha.

Dave [00:25:48]:

I mean, you just think about the machines that they need to create the lines to build those, you know, very capital intensive. Yeah, that very well could be the issue. There could be some again, I don't know this for a fact, so this is just speculation. So all you Tesla people out there, just relax. For A, the Rivian may be building off the backs of the technology or the know how that Tesla has. And so they again, don't have to go through the headache of, how do I do this from scratch? Like, there is already a blueprint out there that they can model what they're doing, and maybe that allows them to scale faster because there's already a blueprint, whereas Tesla didn't have that blueprint, and they were having to create it on their own. And now that the blueprint's out there, they can just take this and go, okay, hey, we know what we got to do. We just got to spend the money to do it and find the people to do it.

Dave [00:26:49]:

Once you do those things, you can do it faster. So, I mean, that's just my two cent. I could be completely wrong about that, but it sounds logical to me.

Andrew [00:26:57]:

Reminds me of the early Microsoft model.

Dave [00:27:00]:

Yeah.

Andrew [00:27:01]:

Building off the backs of what people are creating and making them a little bit better, right?

Dave [00:27:05]:

Yep. Well, that's kind of the nature of business, know, standing on the shoulders of giants, right. Finding somebody that really breaks the barrier and starts it, and then you just take what they've done and build on it and just about anything you can think of, any human endeavor, that's really the way it's always been done, whether it's in business or whether it's in music. Or writing science. That's kind of the way it works.

Andrew [00:27:28]:

So obviously I'm going to ask that. You don't ask me this question because I don't know how to answer it. If you had to put a number on it, like a probability number that buying Rivian today becomes like a ten bagger for somebody. It becomes one of those business stories that really basically it goes from this high risk, a lot of uncertainty we don't know if this business model is going to succeed to becoming somebody like where Tesla is today. If you had to assign a probability to that, do you think you could confidently do it?

Dave [00:28:02]:

Yeah, no, I couldn't confidently do it, but I could take a swing. My sense is that it's probably got a five to 10% chance of becoming that. I think the odds are not in their favor. To quote Mockingbird, yeah, I don't feel like the ODS are in their favor.

Andrew [00:28:21]:

Okay, that's a good answer. What would be the payoff if it does work out? They're at about an 18 billion market cap now. What kind of a payoff could you see for this company over the long term?

Dave [00:28:31]:

Well, I mean, if they keep doing what they're doing, they probably could easily get to a $50 to $75 billion company. That's probably not unreasonable for them to see that. I think the one thing that at this point that I feel like maybe niches them down a little bit more than a Tesla is that they seem to be focusing on one style of vehicle only. And I don't know, trucks, SUVs kind of thing. I don't know. Is that going to be as popular as an S, like a Tesla S or Tesla Three? Are they going to have the ability to scale up that many? I don't think they have the same cult of personality running the company. And I think that certainly gives Tesla a big leg up over a lot of companies, certainly a lot of any sort of automotive companies. And I don't feel like Rivian has that going for them.

Dave [00:29:26]:

And so that's why I feel like it's probably a smaller market cap by a big magnitude is probably not.

Andrew [00:29:34]:

I doubt like, I don't know if we've seen the end story of Tesla. So I'm going to say I think the market cap could go higher. But I agree with you that the ODS of that are low, maybe not as low as what you said, but I think it's definitely they'll pull it off, and it'll be impressive if they can pull it off. It's far from a guarantee that they will. But in my mind, I think the payoff could be really huge. The kind of return that I probably won't have on a stock, at least in that short of a time period, right.

Dave [00:30:04]:

If I was going to invest in a company like this, I would probably try to make sure that it's a smaller portion of my portfolio. I think even if I'm completely wrong and it doubles what I'm saying, I still probably wouldn't feel comfortable having it more than 2% of my portfolio. It would be small at this point. Maybe in the future it could be a better bet, but this would maybe be one of those kind of coffee can ideas where you buy a little bit and you just don't pay much attention to it for a while because it's got a lot of growing pains to go through before it gets to where it's a company where you can really sit down and analyze. Francisco is asking us, how do you properly value a company like this? At this point, I don't think you can. You just have to believe in the story and believe in what it's trying to do and understand the industry well enough to think that they have a chance to be successful in the longer term. This is not going to know an overnight success by any stretch.

Andrew [00:31:03]:

Yeah, I think that's really well said. I mean, even the guys at Sequoia, they're one of the most popular venture capitalists. They and others, when they're investing in these early stage companies, they'll have portfolios of like 100 companies or something, and 99 might fail or go out of business, but they'll have that one and that one. It makes the whole thing worth it. It makes their return really good because it has just this blockbuster results like you wouldn't believe. And that's the strategy. And I think if you're going to go for a company like this, to your point, I would size it very small and proportionally. Even Ron Barron, right, I used his example earlier.

Andrew [00:31:49]:

His fund had just 1% of Tesla and he said it was like a dog for years and then all of a sudden became a ten bagger. And now it's like a big part of his portfolio. But now their risk profile is completely different because they're way established. They have good income statement, they have a good balance sheet, and so now he's comfortable holding it to 10% or whatever, 15%, whatever it makes up of his fund now. But it grew into that. Right. And when you look at a company like this, that's kind of how I would try to if I could throw one more pitch in there, I would say if you're talking about a baseball game and you're talking about a baseball player, if somebody can get a hit, 30% of the time, they're probably going to make the all star team. Right? Or at least get really close.

Andrew [00:32:34]:

Yeah, I think if it's game seven of the World Series, we know what the statistics are, but every once in a while you get that special person who can you feel a lot better about that guy at the plate than what the statistics tell you. But that takes, I think, to know a player like that. That takes a lot of expertise. And, like, there's I don't know if anybody comes to your mind, but maybe somebody like Barry Bonds or something, where in hindsight, it's obvious. But it took even the professional baseball community years until they recognized the greatness of right, where he's kind of like an outlier. So, I don't know, I mean, that's kind of how I look at it. I feel like you have to really know your stuff to make an investment like that, even if it's a small percent, because you take enough of those 1% losses. And I don't care how the rest of your portfolio does, it's not going to look great.

Andrew [00:33:29]:

But in the structure of the right portfolio construction, the right analysis, and maybe getting a few lucky breaks, I think it can make or break some of these life, potentially.

Dave [00:33:40]:

Yeah, for sure it could. I think that's probably the best way to think about it is that idea of picking a lot of swings with a lot of different companies in the hopes that one or two will make it big. And to your point about Sequoia, that's the way a lot of those VC companies will invest is that they will take a swing at a lot of different companies in the hopes that one or two will make it big and that will offset the potential losses for the other ones that aren't successful. That's a way you can win in investing in that way. But it's a lot of work, it's a lot of sleepless nights wondering how all these companies are going to do because you don't know which one is going to be the one that's going to hit it big. And I think there's so many different great business ideas and companies and operators and executors, and there's a lot of people out there competing to try to be successful, and some are going to be and some aren't. And it's hard to know what's going to be the next Google or the next Amazon or the next Tesla. I certainly don't know.

Dave [00:34:45]:

And I would say a lot of the venture capitalists probably don't know either, and they probably think they do, but they're wrong 95 out of 100 times. But that's the game they're playing. They're playing a different game.

Andrew [00:35:01]:

Not my cup of tea, but I respect it.

Dave [00:35:03]:

Me too. Yeah, me too. It's not my cup of tea either, but I definitely respect what they do. It's just not the way I'm built. All right, well, with that, we will go ahead and wrap up our conversation today about Rivian. Hope you guys enjoyed that. So don't forget to subscribe to the show on your preferred podcast app. If you enjoyed our little show, if you would kindly consider giving us a review, a five star would be awesome, greatly helps our show.

Dave [00:35:26]:

And don't forget to browse the incredible materials we've created for Einvestingforbeganners.com. It's a resource there for you. 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. 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.