IFB318: Andrew's Valuable Insights - A Conversation on Building and Evolving an Investment Portfolio

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Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have episode 318. Today we're going to have some fun because I'm going to interview Andrew. So Andrew is going to be on the hot seat today. We're going to talk about Value Spotlight, some of the things he's learned, some of the things maybe he wish he knew before he started and just kind of go from there. So it should be a fun conversation. So with that, let's go ahead and dive in and let's talk about investing and building a portfolio. And I guess maybe let's start with an easy one.

Dave [00:00:31]:

When you started off, you kind of had an idea. Do you feel like the portfolio is still the same as when you started, or do you feel like it's changed over time?

Andrew [00:00:42]:

It's like taking a complete 180. Maybe not complete 180, but it's had a huge makeover, I'll say that.

Dave [00:00:49]:

And what do you attribute that to? Do you feel like your investing style or philosophy has changed? Or is it because you've maybe learned more and feel like you are picking better companies?

Andrew [00:00:59]:

I'd say it's a little bit of both. I think part of learning is learning what works well for your style and also what you're trying to achieve. So I had pretty decent success buying and selling a lot of different cheap stocks. I learned that I like it better when I can just buy something and hang on to it for a long time and not have to do much. And you have to buy better businesses when you do that, but it's also hard to get cheap stocks when you do that. So that was part of the learning process for me, was like, all right, sometimes you can have your cake and eat it too, right? Sometimes Microsoft's trading at a ten PE or whatever it is, and you're able to get on the train early. But a lot of the times, good businesses are not as cheap and you just kind of have to pay that price or wait for the most reasonable price you think you can get in order for those opportunities to be there for you. So some of it was learning and some of it was adjusting to what my goals were.

Dave [00:02:05]:

Yeah, that makes a lot of sense. Do you feel like the last few years, let's say I guess last three ish years, have been probably some of the more difficult periods to invest through, and so maybe some of that has maybe helped refine what you're trying to do.

Andrew [00:02:22]:

Yeah, I think that's a great way to look at it. It feels, in a way, like there's been a big reset and I don't know if reset is the right word, but it's felt like some industries have gone into turbo booster charge mode, and others that were weak have seemed to just get weaker. It's almost like that divide has, for whatever reason, there's just been huge movements on the landscape. And so what better time to transform a portfolio than when the winners seem pretty obvious and the losers seem pretty obvious. We'll see how long it plays out. Obviously three years is not much of a time horizon over the long term. But in the meantime it does feel like you've seen separation between some of the more obvious winners and some of the not so obvious losers.

Dave [00:03:10]:

Yeah, that's a good point. I feel like that there has been a bit of a shift in. I think reset is a good way of putting it. It feels like people out there are discovering that it is important to understand the business, it is important to understand how much the company is worth, or at least have some idea of that. And I base that on just anecdotal evidence and also just the people we talk to. That seems to be more and more of a conversation about the fundamentals of the business as opposed to the story of the business. Do you feel like that's kind of what's going on?

Andrew [00:03:49]:

Yeah, and I do think there's big picture fundamentals underneath that's forcing that change. Howard Marks one of the brilliant investors of our time, and I look forward to every single time he writes something, he's talked about how changing interest rates really changes the way companies have access to capital. And so in the past, when interest rates were cheap, anybody could raise money. It seemed like anybody could raise money. And if you can just raise money whenever you need to grow, then you can have a lot of mediocre businesses that stick around. So you don't need to know the fundamentals in that case. But when capital tightens, you have interest rates that come up. It's no longer so easy to raise money, only the good businesses can raise money.

Andrew [00:04:39]:

Now all of a sudden stock prices are going to get closer to the fundamentals, or at least seem to, because that stuff maybe matters more now.

Dave [00:04:49]:

Yeah, for sure. So I guess along this journey, what do you feel like you've learned the most from and what do you feel like has taught you the most and what, I guess, valuable insights have you determined over these last two or three years that you feel like can carry you forward?

Andrew [00:05:07]:

How do you pick just one?

Dave [00:05:09]:

Right?

Andrew [00:05:11]:

What about for you? I'd be curious for you?

Dave [00:05:14]:

Oh boy. I think for me, probably if I had to hang my hat on one thing, I think it would be the changing of, I guess, evolving away from maybe more of maybe not evolving away, but maybe having a better understanding of the combination of what the financials are trying to tell me, like a story and the numbers and kind of how that kind of coalesces and how you're in essence, I feel like you're kind of like a Sherlock Holmes of finance. You're trying to get to the bottom of what's really driving what happens with Google, for example. And you can do that by reading the financials, but you can also do it by trying to interpret what those are telling. Like that's. I think that's the fine balance between solely focusing on the numbers or solely focusing on the story and kind of being able to meld the two, I think, is the delicate balance. And that's the thing I feel like I've gotten better at. I wouldn't say I'm great at it, but I feel like I've gotten better at it as I've gotten more experience.

Andrew [00:06:20]:

Yeah, I agree with that. And I hope I have too. Right?

Dave [00:06:23]:

Right.

Andrew [00:06:24]:

If the type of investing you're looking to do is to hold a business for the long term, price does matter, even if you have a long time horizon. And also the narrative matters because it's the difference between buying like a Costco where all the members are super loyal because Costco saves them hundreds of dollars and the membership only costs less than 100 versus something like, I don't know. Not to pick on an ex, but a company like Aaron's, which I held for a time, did well for me. And then I luckily cut bait at the right time before, you know, a retailer where the customers could care less where they go, as long as they just are able to buy what they're looking for. That's the kind of narrative that you can only understand if you understand the business and makes even if costco's numbers don't look as good on a valuation standpoint as some other retailer, the narrative can carry the numbers more than the numbers would carry the narrative over a long enough time horizon. And yeah, that's not an easy lesson, I don't think.

Dave [00:07:31]:

Really isn't. Was there a company or two that helped maybe spur that transition for you?

Andrew [00:07:36]:

That's a good question. I wonder if it was a lot of the companies that I missed out on and a lot of the you know, actually, one that does pop into mind is a company called Lamb Research. And that thing, man, that was like one of my best stocks, and I sold it because I didn't like the way the numbers were looking. But I didn't really understand that their business was fine. In fact, they were flourishing. The whole semiconductor industry was flourishing. The original reason I bought the stock was still there. I just got too wrapped up in my numbers prison and ended up selling.

Andrew [00:08:18]:

And it tripled maybe from when I sold it. And I don't know if someone's had the quote before, I feel like you'll probably identify, but it's like sometimes the worst mistake you can make is not like losing money, but it's selling something that you were right in or not putting enough money in something you were right in. Those can be really painful lessons. But I wonder if that was like the first turning point for me, of feeling smart because I'm like, oh, look at me, I locked in this gain. And as time goes on, that thing continues to skyrocket while the rest of my portfolio is meandering along. It's a very frustrating feeling. It just builds up over time and eventually in 2020, I had enough and I had to change something.

Dave [00:09:01]:

Yeah, I think that comes for all of us. I think my biggest lesson in that was intel. I was locked in the numbers prison and I wasn't really paying attention to I like that term, by the way. I basically ignored the narrative. In hindsight, being 2020 as it is, is that I didn't really understand the business or the industry or the cycle that semiconductors can go through. And so you combine that with being locked in the numbers prison and you don't see the forest for the trees. You don't see the fact that even though everything looks rosy numbers wise, if you just branch out a little bit, you would have seen that there were some signs that the struggle was coming and the company may overcome it at some point, who knows? But for me, it's a mistake that it sits there and glares at me every day. I look at my portfolio, I still own it, but it's definitely not done as well as it should have or what I thought it was going to originally be.

Dave [00:10:05]:

And that was really a turning point for me to really understand that I need to look beyond the numbers and I also need to understand the business a lot deeper and a lot better than I did.

Andrew [00:10:16]:

Yeah, I mean, those are great insights and hopefully somebody takes away something from that kind of along those lines. I remember Sanderson Farms was a very painful one for me. They sell chickens. It's not super complicated, I guess, depending on what kind of food you're into. They are a very cyclical business. And so I didn't lose money on that stock, but I put a lot of my portfolio into it and it sorely underperformed the market. And so that was a drag on my portfolio's performance and it was literally because I sold too soon. I was like wishy washy about how I felt about the numbers.

Andrew [00:10:59]:

And then, similar to your mistake with intel, when the numbers are good is usually when you have a cyclical boom, things are going well. And by the way, cyclical doesn't always have to be correlated with the general economy. In the case of chicken, it's kind of like semiconductors. It's on its own cycle, very tied to supply and demand and even the weather and grain prices and all of these things. And so the numbers in companies like that look the best when that industry is booming, and that's often the worst time to buy those. And then the numbers look the worst when the industry is going through a trough period. And that's oftentimes the worst time to sell them. And that's what I did.

Andrew [00:11:45]:

I made that mistake. I bought at a bad time. I sold at a bad time. And then, of course, just a few months later, they ended up getting acquired, so their stock price popped, and it was like, oh, great, if I just would have hung on just a little bit longer, I might have actually beat the market with that pick. So that was another one, I guess, a similar lesson, but it's taking a different form.

Dave [00:12:06]:

I think these are all valuable lessons, and these are all things that you can only learn from experience, you can only learn from doing. And I guess so to take from those ideas, how have you taken from some of those ideas of some of the things that maybe you felt like you missed out on, whether it's Sanderson Farms or Lamb Research? How have you taken that and know that pain for good, if you will?

Andrew [00:12:30]:

Yeah, it's a great mean. I guess the jury's still out on it. Earlier this year, I bought a company called Westlake, and it's a position I've held for a long time. I bought it when it was cheap, and then I bought it when it was expensive, and now it swung back again where it's cheap, and I bought it earlier this year, so we'll see if that plays out. But very much an industry that was in the trough period, earnings did not look good compared to where it's been in the past. So one of those where I'm hoping to reverse what I did with Sanderson Farms.

Dave [00:13:01]:

Right.

Andrew [00:13:01]:

A very cyclical industry that's very tied to supply and demand. I guess, in the case of hanging on to something like a Lamb Research type of company, I've taken the similar mental model that I use for Lamb Research and applied it to different companies. And basically, the idea is very simple. Humans will continue to innovate. There will always be a subset of humans, and I wrote about this way long time ago in the real Lamb Research. It was so theoretical. But there will always be a subset of mankind that thinks that the end is near and that innovation stops today, and that will always be there. And you always hear them the loudest when you're investing during technological slowdowns, whenever those stocks are getting crushed, profits are slowing down, whatever the case.

Andrew [00:13:52]:

And so I've tried to take that mental model to companies like Microsoft and Apple and crowncastle, these companies that people, you know, the end is near, it must be near. There's no way they can innovate from here. I don't subscribe to that. I think so far humanity has been able to innovate. I think they will continue to do so. We're just driven. A lot of humans are just driven for whatever reason, healthy or unhealthily, and things will continue to get better. So I think, hopefully, having enough exposure to that in my portfolio helps me participate in the upside, and hopefully having paid good prices for those stocks when they weren't a 50 or 100 PE or something, hopefully moderates the downside risk in case maybe Apple does find Saturation sometime soon.

Andrew [00:14:42]:

Paying a lower price compared to its earnings helps try to mitigate some of that.

Dave [00:14:46]:

Yeah, that's very true. I think those are really good insights. So now that we've kind of been down Reflection Lane a little bit here, what do you feel like you wish you knew when you first started this, looking back at Andrew 2013, 2014, what would you tell him from 2023?

Andrew [00:15:05]:

Andrew, you're not that hot. Just stop it. There's some things that you can pick up pretty quickly in the market, and some concepts are easier than others. But it doesn't just stop at the basics. It doesn't stop at the fundamentals. It doesn't stop when you have an idea or strategy that sounds great on paper. It definitely doesn't stop there. It's a never ending cycle.

Andrew [00:15:31]:

And so if you're up for the challenge, it's very fulfilling. It's a ton of fun, potentially financially rewarding, but in the same token, it's not easy, and it's not something to figure out, like a puzzle that you've just uncovered it and you figured it out and you're good to go for the rest of your life. That's just not how it works.

Dave [00:15:50]:

No, it really isn't. And the thing that I like about what you're trying to do is you understand that. You understand that guys like Buffett, Monish Per, Bry, Guy Spear, Joel Greenblatt, some of these people have been doing this 30, 50, 60 years, and they're still learning something. They're still evolving, still getting better at what they're trying to do. Because when you think about it, when you invest in a company, you are looking at the company, you're trying to judge its financial performance over the next however many years. You're projecting that out, but you're also, in essence, betting against millions of other people and their opinions. And it's a very complex system. And so it's not just a matter of, hey, I think that Visa is the greatest thing ever.

Dave [00:16:38]:

And there's just no way that this company can't continue to succeed and be successful and grow its revenue, its earnings, its free cash flow, all those things. But it doesn't always mean that the market is going to agree with you. And sometimes it may take longer than others. I feel like you have to have a bit of a combination of hubris and arrogance, if you will. So you have to be humble to understand that the market will wipe your butt out very quickly without much care or thought about what it's doing. Likewise, you have to be confident enough in your abilities that you can beat it. And it's kind of a fine line. I know Buffett comes across as like this kind of know, fraternal, know, kind of a cuddly teddy bear kind of thing.

Dave [00:17:30]:

But he's a businessman, and he will do what he needs to do to make sure that his business is successful. I'm not saying he's going to be unethical or cutthroat or anything like that, but by the same token, he understands the chances that he's taking and the risks that he's taking. And he's 92, and who knows how much longer he could keep doing this and he could easily just say, screw it, and just take wild, crazy chances on stuff. Yet he doesn't. He just keeps doing what he does every day and just setting an example.

Andrew [00:18:04]:

For the rest of us.

Dave [00:18:04]:

And that's one of the many things I love about investing.

Andrew [00:18:07]:

Yeah. And it's more building a portfolio than it is any individual company.

Dave [00:18:11]:

Right, right. Yeah, exactly. I guess as you kind of think through the things, maybe you've learned, the things you wish you had told. Andrew, 2014. Andrew, what do you think or what do you see going forward for you, the portfolio? How do you feel like it's going to continue to evolve? What are your hopes for it? Any of those kinds of ideas?

Andrew [00:18:33]:

Yeah. Where it's going to be? That's super hard to say. I mean, I'll try to just figure out what stock to buy next month, and that seems to be the ever pressing challenge, so just try to get through every day. What I would hope is that whether it's today or 40 years from now, somebody can go back and see the written track record and be able to become their own fund manager and be doing it in a way that's beneficial to society and not the other way, because, unfortunately, there's a dark side. But that would be the hope. I think some of the changes that you've helped coach me through are really helping push that forward. Gone from just having one piece of research every month about a company to regular content two to three times a month that deals with companies in the portfolio, companies in industries that are related to portfolio holdings, and just that extra layer of research that I had already been doing, just haven't been publishing it. And hopefully by doing that, it gives a constant refresh to the positions that are in the portfolio.

Andrew [00:19:44]:

And I think as those positions start to be held for longer and longer, because ideally, if I did my job over the last three years, a lot of them should be long term positions like is intended. Hopefully that provides a better coverage so people can understand where my mind is at when it comes to those. And just before we kind of shift things to Value Spotlight, I did get feedback that it was kind of like, all right, you wrote about a company and that was it. And it's not what I was doing, but I can see how people were experiencing it in that way. And so that's kind of the big shift.

Dave [00:20:18]:

With Value Spotlight, I love that new shift because I have felt like for a long time that there's lots of valuable stuff that didn't see the light of day, so to speak, and I was privy to it because of our relationship and working together and being friends, but not everybody else was. And I felt like that a lot of that could be very beneficial to other people that could see those insights and the way you were thinking about different things. And I don't think people quite realize the effort and thinking that goes into what you're doing. And I do to a certain extent, but not to the full extent because I'm not doing it. But I see the effort and I see the results and I see the thought and impact of all the things that you do. And that's why I was pushing for some of those changes, was because I feel like a lot of that could be super helpful to other investors because I know that when I'm thinking about Company A, I don't think much about the other companies. And you get so tunnel focused on other things that you can kind of miss the forest for the trees kind of thing. And I think that can be very helpful to other investors.

Dave [00:21:33]:

They can learn alongside what you're doing, plus they can learn better ways to do better, deeper research without driving themselves crazy.

Andrew [00:21:45]:

Any tool that we can get to help us not go crazy, I think is a good tool. Right?

Dave [00:21:50]:

Right. Yeah, for sure. All right, so before we wrap up our conversation today, was there anything else you'd like to throw out there for our audience?

Andrew [00:21:58]:

Yeah, let me throw something out there. I'm going to put my sales suit on first. Obviously, the whole thing has transformed, has changed. It's different. I've had to take time away from other things to focus on Value Spotlight. So I love you guys, but it's not just a free thing here. So we did have to raise the price from where the newsletter was before to where it's going to be now. It's going to be $49 a month now instead of $29 because some people maybe have been listening for a long time.

Andrew [00:22:27]:

We're going to leave open the old price for another week. So this episode should be going out November 27 and December 3 would be your last day to lock in the old newsletter price before the new Value Spotlight price comes into play because of all the things we just talked about. So if you're interested, go lock it in now.

Dave [00:22:54]:

Yeah, I agree. So don't delay. Get to it sooner than later. Try not to be like Dave and Procrastinate. So that's always a good motto.

Andrew [00:23:04]:

Well, you can do it in some stuff we all do, right?

Dave [00:23:06]:

Right. Exactly. All right, folks. Well, with that, we will go ahead and wrap up our show for today. Thank you, Andrew, for answering all my very in depth, intricate questions, and I even got to stump him once. So for those of you out there listening, 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.

Dave [00:23:26]: