IFB237: Beginner's Guide to Investing - $500 Strategies and Understanding Dividend Yields

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have episode 327. Today we're going to answer some fantastic listener questions we got recently from both Spotify and our email. Speaking of that, if you have any burning question that you are dying for us to answer, please reach out to us. You can do it on Spotify. You could also send us an email at newsletter@investingforbeignners.com and we will go ahead and answer that question here on the air. And so I'll put that in the show notes for you. So if you're driving, you don't have to try to remember that.

Dave [00:00:36]:

You can just read it later. There you go. All right, so let's go ahead and dive into the first question we have. What is the most efficient way to pay down credit cards to zero? What is the best way to invest a small amount of money, save $500? So we got this question from Spotify. So, Andrew, you want to take first serve at this question?

Andrew [00:00:56]:

Would love to. Would love to. Hopefully it's a little bit better than my tennis game. We don't want to see that. Nobody wants to see that. So I think the two most common ways to think about paying off credit cards, this is a great question, by the way, coming from somebody who is young and dumb and used to have a lot of credit card debt, I feel your pain. I know it's not easy. It can feel like digging out of a deep, deep hole, but you can do it.

Andrew [00:01:22]:

So keep it up. Whoever wrote this question. Now, the two kind of more popular schools of thought in the personal finance world when it comes to paying off credit cards, one way is to just take your highest interest debt and pay that off first and then work your way down. So if I have a credit card at 30% and one's at 25%, knock the 30% out first. And mathematically that's going to be better for you because you're paying less interest over time, knocking out the biggest, worst offenders. The other strategy, which I liked to use when I had credit card debt, and I think it's very helpful psychologically, is the snowball strategy where you take your debts and you order them smallest to largest and knock them out that way. So if I have $150 on the Visa card, $500 on the Mastercard and $1,000 on Discover card, if I can knock out that Visa card first, that's going to feel a lot better to be like, cool. I only have two cards to go instead of three, and it's going to be a lot quicker to do because you're knocking out the smaller balance.

Andrew [00:02:34]:

So I like that one from a psychological behavioral perspective. Do you have a preferred path, or is there even another way to pay off credit cards that I haven't talked about yet?

Dave [00:02:45]:

Those two are fantastic ways to do it. And I like the snowball effect. I look at it as a way of doing it on steroids. So you take the smallest amount, you pay that off first, and then the amount you have to pay the other two. So let's just say, for example, you're paying total of $300 a month in credit card debt, and you pay off the first card, but you are paying $75 towards that card, that $75. And you add it to the second largest amount that you are already paying, which was $75 a month, and you make that $150 a month for that card. So you pay that one off even faster, and then you take that $150 and you add it to the biggest amount, which, let's say it was 150 as well. So now you're paying 300 for the largest amount and you can pay that one off even faster.

Dave [00:03:35]:

And that's something that I heard one of the bankers when I was in the banking industry talk about. And I thought that was kind of a brilliant way to do it. The other way that you can do it is the biggest killer on credit cards is the revolving credit interest that keeps accumulating. And one way to make the loans cheaper, because that's really what credit cards are, are they're loans. One way to make them cheaper is to do a consolidation loan. And you can go to your bank and there are other options online now with things like upstart and other ones I'm blanking on the names of at the moment. But you can use those companies, you can apply for those loans and find out if those interest rates are lower, because most credit cards now, with the rates being higher, I'm just going to throw out numbers are 25, 30%, somewhere in that range. And that's very expensive.

Dave [00:04:26]:

And if you have a decent credit score, you can get a loan for, let's say it's $5,000 that you owe in credit card debt. Just for giggles. You can go out and try to get a consolidation loan for the $5,000, and you may only pay, let's say, 18% interest, which is still not low, but it's lower than the 25%. And so you can save yourself money. It's also a shorter term loan, generally three to five years, which you can pay off quicker. And by doing that you also improve your credit score because you move that debt from a revolving credit to a fixed credit, which the credit agencies like better. And so it helps improve your credit score as well. So those are some of the ways that I kind of learned during my banking days that can be very helpful.

Dave [00:05:18]:

Save you money, help your credit card get better. The trick is not to go back into using the credit cards after you do this consolidation loan. Hopefully we all learn our lessons and don't go back to that. But that is one of the ways that I have seen and found in my own personal life that work really well for me.

Andrew [00:05:35]:

It's brilliant. Yeah. Go out there and get that done right. All the information, you just served it on the platter. So people out there with credit card debt, you have an action plan, go after it.

Dave [00:05:45]:

It's perfect. Yeah, exactly. The last little tidbit that I will throw at you, if you look at your credit card statement like I have a credit card with Capital one, and Capital one does this cool little thing where they put at the top of your statement, which none of us read. Right. But if you do read it at the top of the statement, it'll tell you the difference between if you make the minimum payment and if you make such and such a payment, how quickly you can pay the loan off. And in a lot of cases, you can save yourself up to three to five years by just adding an extra 50, $60 to the minimum payment. And you also save yourself a lot of money in interest as well. So those are all great ways to save yourself some money.

Dave [00:06:26]:

All right, so let's move on to the next part of this question. So what is the best way to invest a small amount of money? Save $500.

Andrew [00:06:35]:

What's the best way to bake a cake?

Dave [00:06:37]:

Doing it.

Andrew [00:06:38]:

Yeah, exactly. Doing it. If you are someone who's brand new to this, your best option is to get started and build a habit. And start now. The habit of investing is what's going to make the difference for you. So go out and do it. If you want the easy button, you can go into your brokerage account right now, type in the ticker spy, and that gives you an s and p 500, gives you a basket of 500 of some of the best businesses in the world. And that puts you into that.

Andrew [00:07:14]:

It's a great option. You can drive yourself nuts trying to optimize to oblivion about what's going to be the best investment for me. There are plenty of sources, resources, services that can help you optimize your returns. But for $500 just get started, build a habit and you'll thank yourself in the long run.

Dave [00:07:34]:

Exactly. Let's say that this is not your life savings. Would you say spend the $500 on one particular thing, or would you recommend that they break it up a little bit, like, let's say 250? So two different investments, maybe one this month, one next month kind of thing. What are your thoughts on that?

Andrew [00:07:51]:

I like that one, too. I think there's a lot of value in kind of splitting that up and another step towards building the habit.

Dave [00:07:58]:

Right.

Andrew [00:07:59]:

But again, I really wouldn't overthink what you're putting in for $500. You're probably not going to retire on any stock in the world that you pay $500 for. It's going to take a moon shot is not even the right word for it. Maybe like a Mars shot or a Saturn shot or a Jupiter shot for $500. Yeah, build the habit, please.

Dave [00:08:22]:

Yeah, exactly. To kind of build on that point, one way you could approach this is you split it up into $100 increments and you try to buy something once each month and depending on what kind of investor you want to be. If you want to be a stock picker like Andrew and I, then that gives you time to dip your toe. It also gives you time to start learning about individual companies and what you kind of need to know to start trying to buy individual companies. If you've never invested before, to take that $100 and buy whatever strikes your fancy. If you want to buy Spotify, if you want to buy Nvidia, if you want to buy anything, like Andrew said, if you make a mistake, if you pick poorly, for example, it's not going to end your world. And it also gives you the experience. A lot of times it's better to buy a few things, have one or two of them do well and a couple of them not do so well because that'll start teaching you a, the game is not easy, and b, you need to learn some things.

Dave [00:09:23]:

And it also starts to help build a habit because if you give yourself like a $500 benchmark to start working towards, then it could also help you. Let's say if you're in credit card debt and you're able to get out of that sooner, then you could start throwing some of that $300 we were talking about, that you're paying for credit card debt. You could throw some of that into, start investing that in the stock market and building that habit. Because like I've said many times, water dripping on stone, eventually you'll make an impression and you'll be amazed at what you can do if you are consistent and kind of build small habits. We've talked before about James Clear's amazing book, Atomic Habits, and that's one of the things that really resonated with me was how much we can really accomplish in a short amount of time if we really put our minds to it. Most of us overestimate what we can do in our lifetimes, but we underestimate what we can do in a short amount of time. And so I think that's something that if you can try to start building this habit of building your wealth by investing, you're going to go a long, long ways if you start and stay with it.

Andrew [00:10:26]:

Well said.

Dave [00:10:28]:

Thank you. All right, so let's move on to the next question. So this is from Dr. Wasimi. So it says, hello. Thank you for your excellent podcast. What's the difference between earnings per share and dividends? Respectfully. So, Andrew, you want to take a first stab at this?

Andrew [00:10:45]:

Sure. Great question. These are pretty basic first stocks, and you definitely need to know what they are if you're thinking about buying them individually. So earnings per share, you can think of that as the profit of a company. So to back up just for a second, every share of stock that you buy represents partial ownership of a company. So whether we're looking at something as big as Apple or as small as shoe carnival with a couple hundred stores in the US, that one share of stock that you buy is going to represent some fraction ownership of that company that you own. And as a partial owner of a company, you are entitled to a portion of the company's profits and any dividends that they pay out, which is them returning the profits to you. So profits and dividends are different because profits are what the company earns every year.

Andrew [00:11:39]:

Dividends are what they're actually paying out. And so that's really the big difference. Earnings per share is just looking at all of the profits of Apple. So if they made $40 billion in profit one year, and then however many shares they have, it gets split up. And once you divide all of their profit by their shares, then you get earnings per share. And so when you buy a share of stock, you know how much earnings you get. You know how much you're paying for those earnings because that's the stock price. And so do you have an apples to Apples comparison on how much profit you're paying for for a company like Apple when you buy a share of the company?

Dave [00:12:20]:

Let's back up for just a second and can you explain what profit is. Where does that come from?

Andrew [00:12:26]:

Yeah. So it's revenue minus expenses is profit. So if Apple sells you an iPhone for $1,200 and let's say it cost them $300 to make the iPhone and everything else they kept as profit. So it's the revenues minus expenses is the profit. It's a very simplified version of what actually goes on with the businesses, but that's basically what it is. So that's how I like to think about it.

Dave [00:12:55]:

Okay. And then you kind of mentioned dividends. Can you give maybe a deeper analysis of what a dividend is and kind of how that relates to earnings per share?

Andrew [00:13:04]:

Yeah, stop me if I get too excited, right?

Dave [00:13:07]:

The drip king has spoken.

Andrew [00:13:10]:

Yeah. So again, a company is going to take a portion of their earnings, and if they are a company that is committed to paying a dividend, they will take some of those earnings, give them back to people who own stock as a dividend, a key metric that you can use as a beginner to help you get your head around what a dividend, like, what kind of a dividend am I getting is dividend yield. So to go back to the example of apple, let's use JPMorgan, because I know their dividends like a dollar or a dollar five per share. So it's pretty simple. So if you know that you're getting a dollar for every share of JPMorgan that you own, what the yield is going to tell you is the difference between what you're paying for that share and how much you're getting. So the higher the yield, the less you're paying. A lot of people like to think of that as the better deal you're getting. But just think of it as like, okay, I'm putting out $100.

Andrew [00:14:06]:

If my yield is 2%, I'm getting $2 back, and I'm getting that every year. Because a lot of companies, most companies will continue paying a dividend, and a lot of them try to increase their dividend, but you will get the yield percent, and that's going to be a percentage of what you paid for that stock. So whether you're on Google Finance, Yahoo Finance, seeking Alpha Finchat, all of those were going to show a dividend yield percentage somewhere in there. And what that's simply telling you is how much you're going to get back for the year. In the same way you get a yield in a savings account, which they spread out over a year's time, you get the same for a dividend. And that can help you keep track of how much a company is giving back in their profits. You don't want a company that is giving everything away, because then they don't have anything left to build their business. In general, if you're trying to build wealth like Dave and I are, and depending on the circumstance, sometimes you don't want a stock that's not paying anything in a dividend.

Andrew [00:15:08]:

But yeah, I'll just stop there and say, that's kind of the basics.

Dave [00:15:11]:

Yeah, that's a very good overview. I think the only thing that I would probably tag on is when you think about dividend yield, that is part of the return that you get for investing in the company. So if JPMorgan pays a dividend yield of 3%, for example, then that's part of the return that you would get every year, not including other aspects of a potential return. So that's part of the return when you think about, I want to get 10% a year. If JPMorgan is already paying you 3% from a dividend, then the stock has to earn another 7% for you to equal that 10% return if you want. And it's a simplified version of that. But that's how I try to look at the dividend yield is that, and then I guess the last caveat that I'll throw on there on dividend yields, and Andrew kind of alluded to this, is when you see higher dividend yields, there's a limit. And so if you see a dividend yield that's like 20% kind of thing, that's not a good sign.

Dave [00:16:06]:

High dividend yields are great, but it really is whether the company can afford it for a long period of time, and it also has an impact relationship to the stock price. And so if a company is really doing poorly in the stock market and they have a really high dividend yield, sometimes that's not always the best thing. And you can take it from somebody that got burned by that, because that's one of the things I did with GameStop before it was a meme stock, was that the stock price was getting hammered. And so part of the allure, if you will air quote, was the dividend yield, which was eight or 9%, which was a, not sustainable, and b, was a sign that there were not good things coming down the pipe. So just beware. Sometimes, if it seems too good, it is like Andrew likes to say, there is no free lunch in the stock market. So just kind of keep that in mind when you're thinking about dividend yield.

Andrew [00:16:56]:

Giving me painful flashbacks to Franklin Resources sorry. Well, maybe I'll have to take a break and come back.

Dave [00:17:04]:

Yeah, we'll step away for a moment, do our little counseling session, and then we'll come back.

Andrew [00:17:08]:

Thanks.

Dave [00:17:09]:

You're welcome. All right, we're back. Hello. I just discovered the podcast last week and have been binge listening ever since. The way you break down investing is so easy to comprehend compared to other podcasts. I am so thankful for everything you guys do. My question is, how many shares of a particular ETF or stock should I be aiming to buy? For example, I am currently interested in the SPDR XLX ETF and I just purchased ten shares of it. How many should I look to buy before I move on to investing in a different stock or ETF? Is there a recommended quantity or monetary values I should be aiming for? Thank you very much, Victoria.

Dave [00:17:45]:

So, Andrew, I'm going to let you take first stab at this excellent question.

Andrew [00:17:49]:
I'm a throwback and see if you want to do it.

Dave [00:17:51]:
Okay, I knew you're going to do that. It's simple answer, simple, easy button no. If you want to buy eight gazillion shares of this particular ETF, and you have the wherewithal to do it, knock yourself out. I don't think there is a particular limit. It really comes down to what are your goals, what are you shooting for and what kind of diversification do you want to have and how you want to build it. And if you have the wherewithal to buy ten shares of this and then move on to another one and build it up, then you can certainly do that. I'll be honest, I'm not familiar with this particular ETF, so I'm not sure what they cover. But if it's more of a niche market kind of thing, then you probably don't want to have 100% of your portfolio in this particular ETF.

Dave [00:18:39]:
And if you want to build a portfolio of etfs, by all means do it, but still kind of apply the same kinds of ideas you would have. If you have a whole bunch of different companies in your portfolio, you want to build a measure of diversification to help limit the a poor choices that we might make and b any sort of market downturns that will happen from time to time and sometimes can happen sector to sector. And so by doing that, you can help protect yourself. And as far as the monetary value goes, it kind of falls along the same lines as the number of shares. If you have $20,000 in a portfolio and you have 20 stocks, then you split it up accordingly and kind of likewise. But when you're building out a portfolio, you have to go from 100% to not 100%. Right. So you're going to have to split it up as you go along.

Dave [00:19:32]:
Really, the world is your oyster. It just depends on how you want to do it. Now, I would throw this out there. If you're buying just the spy SP 500, then you don't have to worry about diversification as much. It's pretty much moot because those 500 companies already have diversification within them. So if you're just buying that one ETF and that is your investment and that's the one you want to go, a, awesome. B, you don't have to worry about all the other things I was talking about. You can throw all your money behind one thing and call it a day, but if you want to have different exposure to different sectors, like the airline industry or gold mining or, I don't know, gambling or whatever, tobacco, whatever, I'm naming all the sim stocks for some reason.

Dave [00:20:15]:

But if you want to have those, then you need to worry about more about diversification. But I hope that helps. Kind of answer. Do you got anything else you want to throw on the fire?

Andrew [00:20:23]:

Sure. Yeah. Thanks for taking that. So the ETF XLK looks like it's a technology select ETF. So I don't know the exact holdings in there, but I would recommend looking at that, making sure. When they say technology, we're talking about established technology companies like Apple, Microsoft, Google, maybe meta you could throw in there and not technology that's speculative. Speculative hasn't been proven as quantum computing or something. Yeah, it's on the cutting edge, but it'll be profitable tomorrow.

Andrew [00:20:56]:

I would try to stay away from that. So that's something you can google quite easily. I would try to double click on what Dave said. And Victoria, if you're looking at from a portfolio perspective, please try to look at it from a percentage perspective and not the number of shares or monetary value. Think of it all in percentages. And if you look at the S and P 500, which is the ETF that Dave mentioned covers the market, I would say probably the majority of investors have so much exposure to the SP in one way or the other, whether it's a 401k or you're just doing an index fund. But just if you want to point of reference, the S and P 500, I think in the last five years has been somewhere between 25, 26, 27, maybe even up to 30% tech in that index. So if you are kind of building this Ala carte and you're kind of putting your own sectors in there.

Andrew [00:21:52]:

30% into tech might be a good benchmark and then looking elsewhere. But I would encourage, don't do this haphazardly. Try to follow. I think the S and P 500 is a good benchmark of. It tends to represent a broad spectrum of the economy, and it can be a good benchmark to shoot for. If you're an individual stock picker like Dave and I. The rule of thumb framework that you can use, that a lot of people use is start trying to build 15 to 20 stocks. That's been one of those generally accepted practices that a lot of stock pickers do.

Andrew [00:22:27]:

It's a good place to start.

Dave [00:22:28]:

Yeah, it's a perfect place to start. And I think that's a great way to start building the portfolio. I mean, it's an excellent question, and I think the percentage thing that you were mentioning there, I think that's probably really a good key to think about. If you're trying to build a portfolio, if you want to buy several etfs that are very broad based, you just buy two or three of them and call it a day. But if you want to be more diversified, more specific about capturing different things, I think that idea of looking at the breakdown of the s and p 500 and kind of using that as a guide, I think is an excellent way to do it. All right, so let's move on to the last question. So, hi, Andrew and Dave. I've been listening to your show for a couple of years now, and thanks for all the knowledge you guys share.

Dave [00:23:11]:

I love the fact that you keep repeating some basics again and again, and that keeps my investing roadmap steady and not diverge with any distraction. I know that you both hold CCI or Crown Castle in your portfolios, though I don't own the stock and I'm not as bullish on it as you are. I wanted to get your perspective on the recent news of Starlink being able to deliver cell service through its satellites and how you see this playing out. Specifically, how do you go about dealing with such news on any investment you currently hold? And this is from Vanesh. So this is a great question. And as the reigning Crown Castle bull here, I'll let you take the first stab at this.

Andrew [00:23:49]:

Yeah. For mean, if there's ever a guy who's excited about Crown Castle. Right, right. So, yeah, it's a great question. Starlink, for those of you not familiar, it's these satellites that Elon has been throwing out into space and they're constantly orbiting the earth, and you can get actually pretty decent Internet connection using them. We actually just take you behind the curtain. We've done an interview on this podcast with a guest who was using Starlink, and it came out with video, and it turned out pretty well. Now, the problems with some of that, and the reason why I'm not concerned on this particular competitive threat is the physics behind Internet connections and cell phone connections and kind of the way that we use those things with our phones.

Andrew [00:24:40]:

So I'll challenge you to think about if you've ever been to a baseball game or a football game or a basketball game, and you've tried to use your phone and just been like, what the heck is going on? I can't get on the Internet. Or the Internet is super slow. It's because cell phone service can get congested. And so the more it's used and consumed around you, the slower it is for everybody. So that sounds really basic. Okay? But if you have all of these people in a concentrated area, they're going to be tapping these cell phones. And so the bullish thesis behind it is as more and more people consume, they're going to need more and more bandwidth. Now, the problem when you get into the physics part is the starlink is so far away and the cell towers are way closer.

Andrew [00:25:31]:

And so while Starlink might work well, when you're out in the country, you have a vacation cabin somewhere, and nobody else is competing for that, know your connection is going to be pretty good. But if you're in downtown LA trying to beam down from a satellite, when there's three cell phone towers, which are much closer, the cell carriers just have to use the towers, and you just can't get away from that difference in distance, at least the way with the technology is now and for how it looks like it's been developing. So there's always competitive threats. It's always important to be cognizant of those and understand what's the potential disruption. Starlink certainly sounds like it could be. And for all we know, maybe tomorrow Elon figures out a way to multiply by 100 x. The speed of distance doesn't matter, but until that happens, it's one of those things you do watch. You don't put your head in the sand.

Andrew [00:26:29]:

But you also understand that, all right, let me understand the business. Let me understand what makes the business, the products, the service, what makes this stuff work? And why is cell phone towers competitively advantaged? If cell phone towers did not have that competitive advantage, which comes from physics, then it might not be a strong investment, and I probably shouldn't be so bullish on it. But as long as that competitive moat is there from the product, then I feel pretty confident continuing to hold the stock.

Dave [00:27:00]:

I felt the same way. And the way I've tried to look at it, when I think about the bandwidth and what Andrew was talking about with the football game is I try to think of it like a garden hose. And you can only put so much water through that hose, no matter how much you need to get out on the other end, whether it's trying to put out a fire that you started or whether you're trying to water your grass quickly, there's only so much you can put through there. And so each cell tower that they put up in the area gives them more and more bandwidth available to be able to service people. And when you're thinking about Starlink, yes, it may have that ability, but because it's so far away, it's a little bit like solar panels. One of the problems with solar panels is they're only about 25, 27% efficient. So in other words, even though they may be receiving 100% of sunlight, they can only convert about 25% to 27% of it. And if we were closer to the sun, they could convert higher percentages of it.

Dave [00:28:00]:

And since that's kind of unlikely, then, at least at this point in technology, unless they figure out how to put cell towers into space, which I'm sure they could do, but then they'd have to figure out how to beam the energy here to the earth. And that would lose. You would lose in the transfer, just because know Andrew was talking about the physics of it, just the moving from point a to point b, you lose energy from point a to point

b. And that's where some of the struggle to overcome something like Starlink, to overcome Crown Castle or american tower or any other cell tower service. I think, like Andrew said, it's good to keep your ears open and understand what's going on, but also to kind of think through the logistics of what actually they're trying to do and how likely it is that that is going to become a thing. And sometimes it can become a thing. You just may not see it, but other times it may become a thing, but in 50 years. And so there's all those things to consider.

Dave [00:29:00]:

So I guess that's kind of my thought on that part of it, I guess. Can we touch on the last part of his question? So how do you deal with news on investment you currently hold? So if, let's say something comes down about Apple. How do you react to that?

Andrew [00:29:17]:

Yeah, I love that. I guess there's such levels to this, right? Because you have news that sounds like news but isn't news, and then you have news that's, like, actually news, and then you have everything in between, which can be so hard to sift from. So maybe before we even talk about how to deal with news, in your mind, how do you categorize between news that's not really news, news that might be important news that, okay, I should really pay attention to. How do you do that?

Dave [00:29:47]:

Personally, that's a challenging question. Maybe instead of Apple, I'll think about a company like visa, which is a company I feel like I know better. For me, it revolves around understanding what the business is, what they do, what their competitive advantage is, and what some of the potential risks are to that competitive advantage being eroded. And then I kind of filter the news based on what I feel like are the potential risks for the company. So if there's some news about something that I feel is maybe not as, like, let's say, for example, let's say that one of the biggest banks in the country decides they're not going to use visa, they're going to use Mastercard instead. On the risk category level, I may put that as a mild news, like, okay, that's good to know, and that may affect the company a little bit, but they'll make up for another ways. And so that is not as big a concern. But if I find out that there is some new payment rail system that is faster and cheaper, that's being grown in some foreign country, let's just pick India, then that could be something that I may pay a lot more attention.

Dave [00:30:57]:

Really? To me, it comes down to knowing the company and understanding what the potential risks are and then putting that as a filter through the news that I receive about the company. And then I try to kind of weigh, is this noise? Is this something I should be concerned about? I need to give some serious consideration for, or where does it fall into there? So I guess that's how I try to approach it. What about you?

Andrew [00:31:24]:

For me, I probably a little too rigid with it. I subscribe to bamsec.com, fantastic premium service. And so anytime a company has a press release that comes from the company, I get it on my dashboard, and I also get it to my email. So I'm able to sift through the press releases and really get news from the source. So it's not some blogger in Indonesia or know who's got an opinion. It's all been filtered in one way or the other. I'll admit that probably makes me a lot more blind to potential threats. And my strategy is I probably sell the natural byproduct of being maybe a little too blind to a brand new innovation is that I'll probably hang on a little longer than if somebody who is more on top of it.

Andrew [00:32:14]:

But the trade off is I have a lot more time to deeply understand businesses and kind of figure out how my businesses personally are changing. So using those and then a combination of those and quarterlies in the annual reports. So I look for the numbers to tell me when to pay attention to something. So I loved your example about Visa, because if you don't understand Visa and you don't understand their business model, hearing that they lose Morgan, for example, might sound really scary. But then if you truly understand the business model and you understand how many banks that Visa is partnered with and the different percentages of banks and how much that impacts Visa's profits, that gives you context. And so Dave's kind of using his mastery of the numbers and the facts about Visa's business to help him filter the news. In a similar way, you can take the reverse engineer, backwards approach to that, where you can wait for the numbers to tell you something, and then if the numbers are, like, throwing up red flags, then you can investigate. So that's kind of, I guess, the way I try to look at it, if I see numbers that are heading in the wrong direction, that usually signals me to really dig in.

Andrew [00:33:40]:

And if something's kind of like Martin Marietta materials, seems like their earnings are the same every quarter, it's like, up, slightly up, a little bit better up. So I don't pay much attention to that. And that's kind of the way I look at it. There's trade offs to everything. There's trade offs to different ways you could look at news and analyzing businesses and managing your portfolio, that's the way I do it. Doesn't mean it's right for you, but I think it's a great question, and I think it's good to get perspective on how other people handle it, because if you don't have a filter, you will get overwhelmed, and there's just more news than you can keep up with. And I put news in quotes.

Dave [00:34:21]:

Right. Those are great ways to kind of filter the news and keep a perspective about what's going on with the company. And there are a couple of things I want to caution people about when they're thinking about news. Number one remember, always remember that CNBC, other news outlets, their job is to generate eyeballs. And I've said this before, but if it bleeds, it leads. And the more controversial, the more outrageous it is, the more they're going to try to pump it up. Because it attracts eyeballs, it doesn't mean that it necessarily has a big impact. Perfect example is when Microsoft and Bing came out with the AI, and that was going to kill Google.

Dave [00:35:07]:

And a year ago, around this time, a year ago is when this all was kind of playing out and it was the death of Google search. Google search was done. They were mean. That was the headline everywhere. They were toast. It was done. Google was over everything. And the next quarter to kind of go back to numbers.

Dave [00:35:25]:

When you look at the next quarter, their market share, if you will, hadn't changed one iota. And even a year later, it hasn't changed. And so it really hasn't impacted that part of the business for Google. And so my point with that story is that when you think about what happens with the news, you have to filter it in some specific way or ways. And the other thing to always try to keep in mind is buy stocks slowly, sell even slower, and try to always remember that you bought a company for a particular reason. That's why writing it down or having a record of it somewhere is so helpful in these circumstances, because it's very easy to get emotional. It's very easy to get upset, triggered whatever term you want to throw on there with that. It's very easy to get emotional or react to something or get upset.

Dave [00:36:16]:

And it's natural, we're humans, it's natural for us to do. But I would caution you about reacting to something negative or positive and looking at the facts and giving yourself time before you make a reaction. It's very easy to see something like what happened with Bing and Google to go, I'm out of Google, and miss out on 30% gains or whatever crazy number they had this year. And I would caution you to be slow about when you sell based on something that you see on tv or read on your phone. And to Andrew's point, the source of the news is also very good as well. And that's why I like what he does with the press releases, because those are filtered for the most part through the company and through lawyers. And so it's going to be, I guess, more air quote reputable than it may be from some random thing on the Internet. Just because it's on the Internet does not mean it's true.

Dave [00:37:12]:

So let's just kind of keep that in mind. But those are some ways that you can help yourself. Try to avoid reacting to negative news. It's good to take in news. It's good to take information. It's good to keep all those things in mind when you're thinking about your investments. But always keep in the back of your mind there's an incentive. Why are these people doing this? What is in their incentive to make this as sensational as they possibly? You know, Charlie always said, show me the incentive and I'll show you the result.

Dave [00:37:42]:

And so I think that's something that I always try to keep in mind when I think about reacting to the news. Hopefully that helps.

Andrew [00:37:49]:

Oh, I love that.

Dave [00:37:51]:

So with that, folks, we will go ahead and wrap up our go for today. I wanted to thank everybody for taking the time to send us those fantastic questions. We hope that you find the answers helpful. And if you do have any questions again, please reach out to us. We leave everything in the show notes for you if you have time to send us a question. So with that, I'll go ahead and sign us off. You guys go out there and invest with the margin of safety. Emphasis on the safety.

Dave [00:38:15]:

Have a great week and we'll talk to you all next week. Bye.

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