IFB331: 6 Ways to Avoid Buying High and Selling Low

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have episode 332. Today is day two of Andrew and I recording live in person. So, as we mentioned last time, this is something new for us. So this will be fun. And it may sound a touch different, but that's okay. We're having fun, and you guys are going to learn a thing or two as well. So today, we thought we would talk about buying low and selling high.

Dave [00:00:26]:

Most of us know that that's the way you're supposed to do it. However, unfortunately, a lot of us buy high and sell low, so we do the opposite of that. So we thought we would give you six potential ways that you could help avoid falling into that trap. So I guess let's dive in and talk about the first one, which is know your game. So, Andrew, what does that mean? How would that help you avoid buying high and selling low?

Andrew [00:00:53]:

When I think of know your game, I think of what's the game that I'm trying to play, which might be a little bit different from other investors. So, for me, over my investor journey, this took some time to learn for myself. But I eventually learned that I prefer to buy businesses over the long term and hold them if possible. And so that means buying businesses that are better. Obviously, you're always trying to buy better businesses, but basically, to me, it meant shifting the priorities away from just strictly, is this a really cheap stock? To is this something I could see myself holding for five to ten years? And so when I think of know your game, I think buying low can sometimes sound pretty easy. But if that's not your game, then it might not be the right move. So, as an example, if you have a stock that's really cheap, but it's in secular decline, and in ten years, it might be a smaller business than it is today. If you're not getting that growth, then you could be thinking you're buying low.

Andrew [00:02:00]:

But if you have a game like mine where you're trying to hold it for ten or 20 years, you're actually probably not buying low. In that case, you're probably paying too much for a business that you shouldn't be buying at all. And so when I think of knowing your game, that's kind of how I try to apply it. How about for you?

Dave [00:02:16]:

I think that's a great framework to work from. I think when I think of know your game, I think understand what it is you're trying to do and what kind of investor you really want to be. And to your point, the best way to buy low is to understand the value of the company that you're buying and buy it for less than it's worth and not as a bash on other kinds of investors. Momentum growth, whatever term you want to throw on there, part of that can be kind of a timing issue as well, buying at a lower price and selling at a higher price. But that kind of goes to timing the market, which we have shown time and time and time again that that is almost impossible to do. And so I think understanding the game that you're playing, I'm trying to find good companies for less than they're worth and buy them and try to hold them for a longer period of time. Sometimes that time frame may be a little slower, depending on the business. And sometimes it could be because you make a mistake.

Dave [00:03:19]:

We make mistakes, we make poor uses of judgment, or maybe our valuation work wasn't up to snuff or we just flat out got it wrong. It can happen sometimes. But I think going back to just understanding the game, understanding what it is that you're trying to do, understand what kind of investor you want to be and then having a plan and a guide to kind of follow. So you're consistent with every investment, every new company is going to be a new company, it's going to present different opportunities and different challenges. But if you go into it with a framework of this is how I want to invest, this is what I'm looking for and this is what I'm working towards, you stand a better chance of being a lot more consistent in your decision making.

Andrew [00:04:02]:

Yeah, consistency is key. And I like the way, you know, we're all going to make mistakes. Guilty guy number one. I bought a company called Franklin Resources that I thought was a good business that I thought was going to grow over time and ended up not growing over time. So I was a great example of buying, thinking I was buying low and actually wasn't because the business continued to get smaller and smaller. And when I think of trying to be consistent and knowing your game, there are some good growth investors out there and guys who've gotten Amazon right. For example, Amazon and Microsoft, two businesses that 20 years ago were very expensive and a lot of people thought you were buying high. In that situation, if that's your game, where you feel like you know which businesses will stand the test of time in 20 years, then you could be buying at a much higher price and actually not be buying high.

Andrew [00:05:02]:

I just have a very pessimistic view on being able to forecast what businesses will last in 20 years. If you had to put a gun to my head, I'd probably say Costco and then there's maybe a second company in that category. But there are people who maybe are a lot better at that game and they can buy higher than other people would think is reasonable and still do well. And people who have bought Amazon at a high price or Microsoft at a high price, you can certainly say that they won playing that. So I guess too many extraordinary new insights there. But again, I do think knowing your game and using it to be consistent, if it matches with your skill set, then I think that consistency can lead to good results. It has to match your temperament. It has to be a good strategy though.

Dave [00:05:51]:

Yeah, absolutely. I think that kind of dovetails perfectly into kind of the next point, which is understanding the business. I would argue that the folks that bought Amazon 20 years ago, they understood the business and they had a sense of where the company was going to go and they probably had a really good sense of customer behavior and how people react to certain things. I know that's what Warren Buffett has said about Apple. He said, I may not understand the tech, but I understand people. And I would probably hazard to say that people that were buying Amazon all those years ago were thinking along the same line. So really understanding the business, what it is they're doing, what they sell, the products and services that they offer, and customers reactions to those, I think will go a long, long ways to really helping you avoid buying high and selling low. What are your thoughts?

Andrew [00:06:43]:

Yeah, I feel like can't really argue with that. Understanding the business, if you're playing the game like that. I'm trying to play holding a business for hopefully 510 years or more, you most definitely have to understand the business. And I like that idea of thinking of people don't change like the tech does change, but people don't change. And maybe that's something that needs to be taught in MBA classes. What about a business is more likely to stand the test of time? And I think you mentioned a book you were reading recently about how people don't really change that much over time. That could be a powerful source of alpha, I think a powerful source of being able to outperform the market, if you can figure that out for certain businesses.

Dave [00:07:26]:

Right, exactly. There's lots of conversation about behavioral psychology, but it generally focuses more on us as the investors as opposed to the general lay public and their consumption habits. And I think that probably goes to why Charlie spent some time, Charlie Munger, that is, spent some time reading psychology textbooks because he was trying to, I think what he was trying to do. I've never seen it actually laid out this way, but my guess is that he was trying to determine customer behavior more so than his own behavior. And because I think if you can start to try to understand the way people buy stuff and what drives them to buy or not buy things, I think that can really go a long ways to really understanding how a business can be successful and not successful. You look at an electric vehicle, why will somebody buy a Tesla, but maybe not afford kind of thing? And understanding the psychology of that can go a long ways towards understanding the long term success of each think. And so what are your thoughts on how do you try to understand what the business does?

Andrew [00:08:38]:

If it's possible, this might sound really elementary. I'll go visit the business. I was looking at Dick's sporting goods when I first looked into that company and doing the Internet research. Okay, who are the competitors? Who are they saying they compete against? Who are people mentioning know there's a company called Hibbit Academy Sports. And I had been to academy sports before, but I hadn't been to a hibbit. So I went in and checked that out. I checked out play it again sports, and just went inside the store and looked around, and you definitely get a very different feel. And you can see, like for Hibbit, for example, they're targeting a very specific type of customer, a basketball fan.

Andrew [00:09:18]:

And you go to play it again, sports. They're kind of targeting the goodwill kind of customer. And then you go to Dick sporting goods, and it's completely different target as well. So that's the first step for me, if it's possible, and if it's a business that's customer facing, I'm just going to go and check it out.

Dave [00:09:35]:

That's part of the what Phil Fisher scuttlebutt idea, really kind of getting in the nitty gritty in the dirt, if you will, and really understanding what it is the business does. So how would you approach something like, let's say, a trade desk, which is not customer facing? How would you try to learn what they do and how they do what they do?

Andrew [00:09:54]:

I feel like you just have to go. The annual report. It's got to start there. The beautiful thing about companies regulated by the SEC, as much as Elon hates them, the SEC does require these ten ks, these annual reports. And so companies have to talk about what they do. And something that I feel like you've said a lot on the show that I've tried to take to heart is like, if you read it and it's really hard to understand. There's nothing wrong with putting in the too hard pile because you got to know the business that you're investing in. And if it's going to take you 1000 hours, how many thousand hours do you have in your life?

Dave [00:10:30]:
Right? Right.

Andrew [00:10:30]:
So, yeah, the ten k and the annual report to me is super critical. What about for you? What would be your first place to go?

Dave [00:10:38]:
Well, it's the same as you. I have to go to the ten k. I have to understand it. And sometimes, honestly, I will read through a company's ten k and I'll give you an example. Data dog was a company that I was looking at. I haven't bought it. As of when I was reading through the ten k, I admit my eyes were glossing over because they have this list of all the products that they offer and what the products do, and it went right over my head. And so I didn't quite understand it.

Dave [00:11:09]:
But then I started listening to two or three of their earnings calls that they do every quarter. And there, between their explanations and some of the questions that the analysts were asking them, I started to be able to put it together like, okay, hey, this is what they do. And then I went and watched a few YouTube videos on the company. And some of those, some companies have, like, product reviews or they'll have product demonstrations of what they do and how they do it. And so sometimes you can glean some insights from that. And then I also started trying to write about them because that forced me to put on paper what do I know? And then I did do that. And then I reached out to somebody that on social media, that I knew a lot about the company. And I asked them if they could take a look at what I had written and give me any feedback on what I was missing.

Dave [00:12:05]:
And that helped fill in the holes that I didn't quite understand. So that was super helpful. So I went into all that work and I still didn't buy the company, but it also helped me establish a process for trying to learn to understand companies that I may not understand. That may fall in my circle, but I maybe need a little extra boost to try to figure out what it is that they do.

Andrew [00:12:28]:

Yeah, I love the idea of reaching out to people. I think that can really help. So the next point here. Six points, right. And figuring out how to avoid buying high and selling low. Conviction in your thesis. Now we're starting to talk about investor psychology. How do you use conviction in your thesis to avoid some of these mistakes?

Dave [00:12:53]:

Well, I think a lot of it comes back to the work that you've done in the company and how well you understand the business model and how long you've been around it, that you feel comfortable enough that you understand the company in a way that if there is some bad news in particular about the company, that you can kind of avoid it. And the way that I find works best for me is to have it written down, because our memories are not as good as we think they are, and we may think a certain thing, and that may not actually be the right case. And so, for me, having it written down, whether it's social media, whether it's writing it in a journal, whether it's a Google Doc, a notes app on your phone, wherever it may be, having that written down really helps me, ground me and remind me, oh, yeah, this is why I bought it. Because there are going to be times where you may hear or see something that may freak you out, and that's a normal human reaction. And by having something written down like that, it can help calm you because you see that. Oh, yeah, this is why I bought the company. Oh, yeah. Okay, this is maybe not unexpected, and you can move on with your day.

Dave [00:14:06]:

How about you?

Andrew [00:14:06]:

Like I was telling you earlier today, my memory is so bad because I keep all that space that should be for memory and use it for processing instead. And so, yeah, I have to look at my notes. I have to look at what I've written in the past, and what are the things that gave me conviction before that I can quickly remember. It's amazing how much you can forget. Even you get to, like, 15 companies, 20 companies start to stretch limits, 30 companies. It's really easy to forget important details that those details that you uncover when you're buying a stock that can give you that edge to be like, hey, there's value here. I found this detail that's valuable. You can sometimes forget what that is.

Andrew [00:14:50]:

And if you're not going back and remembering it or having a way to remember it, then that can cause you to kind of be like the rest of the crowd and sell in a panic, because it appears that the company is a lot weaker when maybe it's just a temporary stumbling block.

Dave [00:15:09]:

Yeah, exactly. I think the idea of having someplace you can refer back to your ideas, good or bad, I think is very, very helpful.

Andrew [00:15:18]:

Yeah. And if you can go back and do second kind of deep dives and third deep dives, I almost guarantee you there was probably something you missed the first time or the second time, and it's always so much easier to do a deep dive when you already know the business pretty well. Almost like basketball players. The good ones say how the game can slow down. It's because they've understood the game and played it so much that they're able to pick up on the little details. I think you can totally do that with certain businesses, too, and that can give you a lot of conviction. To me, it's interesting that whatever, like there's fake Internet points or whatever, right? This kind of celebration of people obviously celebrating stock picks, but you get the celebration of great stock picks. You don't get the celebration for the stock pick that you held that maybe went down and then went back up, and that's a huge win.

Andrew [00:16:13]:

If you have a stock that went down 25%, you held it and it broke up back to even. That's a huge win. But you don't get fake celebration points for that. But it's just as, I think wealth generating as buying good stocks, too. Because a lot of investors, obviously, by definition, if the stock fell that much, a lot of investors succumbed to the fear and ended up selling lower than they should have.

Dave [00:16:38]:

Yes, I agree. That's an excellent point. And I think if they take nothing else away from this, is understanding the conviction and having an idea of why you bought the company. And that will help you withstand the drawdowns. Because, to be blunt, it's part of the game, it's part of the system. And Warren Buffett and Charlie Munger have both experienced greater than 50% drawdowns in Berkshire Hathaway three or four times in the time that they've owned it. And that's not unusual. And if you can't hold through those periods, then you can't partake in the long lasting wealth generation that you can get from having stocks.

Dave [00:17:16]:

Unfortunately, they don't always just go up to the right. There are going to be times where they're going to be unloved, or something's going to happen that's going to cause the company to fall. Sometimes it may be short, sometimes it could be for a little bit, a year or two. So I think having conviction can be very powerful.

Andrew [00:17:33]:

What would you say are ways to build conviction if that's something that an investor doesn't know how to do? I mean, you mentioned, like maintaining your conviction when things go sour. How do you build the conviction in the first place that makes you say, you know what, this is a great stock, and I'm going to hold it for the long term.

Dave [00:17:52]:

I mean, there's outward looking ideas, and then there's inward looking ideas. And if you think about outward looking ideas, it's finding other people that own the company alongside you and seeing how they're reacting, whether they're professional investors or whether they're retail investors, people that you may know on social media, for example, and you'll see how some of those people are reacting to news of the company. So those are maybe a few outwardly looking places. The inward is just understanding who you are and understanding what it is that you bought and trying to be patient and understand that the game is not going to be going to have pitfalls. They're going to be ups and downs to any company that you own. And just being patient and having confidence that the work that you've done will help guide you through the hard times and the rough times. Does it mean you won't make mistakes? No, you will make mistakes. But I think trying to learn from those mistakes and understanding, having kind of a process and a game plan in place for why the companies are doing what they're doing and having rules.

Dave [00:19:04]:

We've talked a lot about this, having sell rules, for example, I won't sell the company unless it does this kind of thing. And that's why I think having a thesis or having something written down so that you can look back on when times are tough and go, oh yeah, that's why I bought the company. Those things are not happening right now. So I bought the company because of this. And that still is doing awesome. These other things don't really have anything to do with that. And so that's why I'm still going to hold on to the company. Those are some of the ways that I try to help manage those emotions.

Dave [00:19:39]:

What are your thoughts?

Andrew [00:19:40]:

I think those are all awesome. And on the money, for me, I try to gather as many facts as I can. That's one part is you have to look at how a company is doing, not only just itself, but how it's doing in relation to everybody around it, everybody in the value chain. And then the other thing I try to do is brainstorm my ideas off of you and try to take a deep thinking approach where I'm trying to think of all the reasons it can go wrong as well as all the reasons it can go right. I probably harp on the negative side a little too hard, but I think it's good. I think in general it's a good thing to have as part of the process because there are times where stocks don't do well. And so if you can consider it beforehand. That can really help with your conviction to be like, you know what these people on seeking Alpha are commenting about? Well, the risk here and the risk there.

Andrew [00:20:29]:

It was like, if you've already considered that and you've thought deeply about it and you're okay with it, then you don't freak out when everybody comes out of the woodwork to talk about it. It's like, I thought about that two years ago. Come on, come on, come on.

Dave [00:20:42]:

So we're talking about having conviction. How do you not succumb to the extremes? The media, seeking alpha, all these places, you'll find there's plenty of opportunities for people to be negative about different things. This Saturday, everything or the sky is falling. And how do you just kind of tune that out?

Andrew [00:21:00]:

Well, I do it better in some places than others. Seeking Alpha is probably the place that I should do better at because there's very rarely a lot of value in the comments, but I just can't help but scroll down to them. But when it comes to. I don't regularly watch CNBC anymore, I guess I'm just naturally kind of more focused on the ten ks and the data that I generate and using tools still, like Finchat, IO and quickfs are probably my two favorite shortcut tools, but also relying on the work that I can do myself, I think that naturally helps. And then just kind of naturally being an emo kid can help with that, too. I think you're kind of used to some of that. So how about.

Dave [00:21:44]:

Yeah, the first thing that I guess I do is I really try hard to avoid the news. I don't watch CNBC. I don't watch any of the financial. It's very, very rare that I will watch something like that. So that is one way that I try to really avoid the extremes, because I know what their goal is. Their goal is to react. They want eyeballs. If the bleeds, it leads, and they want people to watch.

Dave [00:22:09]:

And so I try to stay away from that. The other way that I do it is exactly the same way you do is by putting in the work and understanding what it is that I own and trying to think through the downsides of the company. And I think if Charlie would say, if you can destroy your favorites and still be confident in it, then I think that can go a long ways to helping you avoid ups and downs that go on. Because, again, we're humans. It's natural for us to react a certain way. And part of the game of investing is being patient and not reacting and try to be as unemotional as you possibly can, because we have to remember the stock doesn't know we own it and it doesn't care. And so it's really up to us to have conviction in the business and understand that Satya is going to lead us to the promised land and have confidence that he will. And then just kind of sit back and let him do all the hard work and all the stress.

Andrew [00:23:09]:

Yeah, I like this idea of succumbing to the extremes. And we've been talking about conviction. So if I can throw one at you, how do you, or how should investors think about not succumbing to conviction, detrimental to your results, being too overconfident about what you own, to the detriment of becoming a good investor?

Dave [00:23:31]:

Well, I can't speak for anybody else, but for myself, I know enough about history to know that history may not repeat, but it does rhyme. And what has happened in the past can and most likely will happen in the future. And I also know from experience that the stock market will humble you very fast. And so no matter how smart you think you are or how confident you are in this company, the market doesn't care. And it will humble you so fast, it'll make your head spin. And I try to keep all those things in the back of my mind when I'm thinking about companies or investments that I may have. And I guess I always like to question, I'm curious. I always want to know.

Dave [00:24:18]:

And so if there is a particular news or there is something that could impact the company, I always try to run it through the filter of what do I know about the business? And that can help me look and see. Do I need to pay more attention to this? Or is this just noise and I can ignore it for the day kind of thing? And I guess that's kind of how I try to work through it. What about you?

Andrew [00:24:42]:

Well, I think, like you said, understanding history can help a ton, understanding that investors underperform and outperform. Even the best investors have periods of underperformance. And so you do have to be constantly improving if you want to stay atop of this game. And part of improving is also understanding when you are wrong and quickly fixing it. I think knowing this, we can't know what the exact number is right, but knowing that if you're a touch higher than 50 in your decision making, you're a pretty good investor. I've heard good investors say that before. So understanding that, all right, if I can get more of them right than I get wrong, I'm pretty good. Guess what that means.

Andrew [00:25:28]:

I'm still getting stuff wrong. And so when you're wrong, you need to try to course correct and put that money to better use. If you have too much conviction in an idea, you're not going to recognize when you're wrong. So understanding that that's going to help me become an investor, I think helps me to not get too attached to any single idea. But it's hard. It's really hard. I think it's a good life lesson. Not even just for investing, but in life.

Andrew [00:25:53]:

Be very careful about getting too overconfident in anything. Life's just interesting.

Dave [00:25:59]:

Yes, it is.

Andrew [00:26:01]:

Has a way to put things in the balance.

Dave [00:26:03]:

Yes, for sure. I think my experience in the music world helped me realize that there's always going to be somebody better than you. And as long as you can understand that and not be depressed by it and keep doing what you know is right for you, then that's really what kind of boils down to there's always going to be a better basketball player, for example. And if you look through history, you can see that people argue endlessly about, is this person better or this person better? It's all fun conversation, but it really comes down to knowing your limits, understanding what you're trying to do, having a game plan, and then kind of sticking with it and not worrying about oh, so and so is doing better than me. Like you said, if you get more right than wrong, that makes you a pretty good investor. And nobody gets them. All right. Nobody.

Dave [00:26:52]:

Even Warren Buffett makes mistakes. So just embrace failure because it's going to.

Andrew [00:26:58]:

Very, very well said. All right, so the next one here. Avoid the herd, men. This could be fun.

Dave [00:27:06]:

Yeah. I think for me, avoiding herd mentality is, it kind of goes hand in hand to me, a little bit like the news. Just because the stock market is getting out of your company doesn't mean that that's a bad investment. You look back to what happened during the pandemic. There were lots and lots of companies that the tide went out on the stock market, and lots of great businesses fell, and it gave you an opportunity. That was the herd running for the door. Right. And as a contrarian investor, somebody trying to be contrarian, that would be the opportunity to take advantage of those emotions that everybody was feeling.

Dave [00:27:50]:

So a lot of times you can look at the herd mentality as an opportunity to get into something that you may not have had an opportunity to get into before. And likewise, it also can provide you an opportunity to get out when everybody's so bullish on the company, and you're like, no, it's time to step off the escalator. So that could be helpful as well. But that's, I guess, the way I kind of look at it. What about you?

Andrew [00:28:11]:

I like that idea of when things are going sour and you use 2020 as a good example of that. It's amazing how I feel fortunate to be able to have invested during that time. And if you listen back to our back episodes, we did a couple of episodes on this, too. People just get really into macroeconomics during times of uncertainty, and I fell into that just like a lot of other people. Luckily, I have a system where I know I'm going to buy a stock every month. So I didn't not buy things. Right. I didn't sell out and go to cash.

Andrew [00:28:45]:

But so many people go into cash and think about macroeconomics and think about the economy and think about how the world shut down. We're never going to survive. That's the herd mentality. Every time we have these great opportunities in the stock market and you can look at things today, there's always current events that you can justify to keep you out of the stock market. So I love this idea of not trying to be on top of the news all the time because the news is going to feed you those topics that are top of mind with investors. And it would be interesting. I mean, I don't know if there's any way to do this, but it'd be fun to see as we move on are macroeconomic Topics topics about recession, inflation, unemployment, all these things. Are they most popular when it's the best time to buy stocks? Yeah.

Andrew [00:29:32]:

And then when the market's great and everybody's all bullish about ipos, everybody wants to talk about the hottest stocks. That's maybe one of the worst times to buy. Could be an interesting thing. But I put like two and two together like that with the herd mentality until you mentioned it. But it is one way to kind of think about applying contrarian thinking into making good investments.

Dave [00:29:52]:

Yeah, I agree. I think if you can, it goes back to understanding who you are, what you're trying to buy, what you own and why you're investing, and then just trying to be, I guess, have a rational mind about it. The last point, trying to be rational about everything, because a lot of the things that we were talking about really revolve more around emotions and how you feel about things and how the market feels about things. And to kind of go back to it, visa doesn't know. I own it, doesn't care. And the company is going to do what the company is going to do irregardless of whether Dave Ahern owns it or, you know, the CEO is not running for the, oh, my gosh, Dave sold the company. What are we going to. They don't care.

Dave [00:30:34]:

And so I guess my point is that trying to have a rational mind to help you avoid all these emotional situations, I think can go a really long ways to helping you avoid falling into the trap of selling low and buying high. So I guess to you, what does a rational mind mean to you?

Andrew [00:30:53]:

Man, I think we all like to think we're more rational than we actually are. I don't know if there's a solution for everybody. I'm sure we all have different ways. I think for me, having guardrails in place and having systems in place has helped me maybe not always have a rational mind, but make rational decisions. And so part of those is, like I mentioned earlier, dollar cost averaging, every month I'm going to invest the same amount of money. So it doesn't matter how I feel about the market, because I've had plenty of times I put money into the market where I'm like, I really think it's going to crash, but I've stuck to this habit, so I have to do it. And guess what? It didn't crash. And then it didn't crash.

Andrew [00:31:33]:

And then it didn't crash. I'm like, wow, I'm so glad I continued to use the system. So I think having that, having diversification, that's always helpful. And then really being, like, slow to sell, that's something that I like that you constantly remind me about because it's very tempting. One of the companies in my portfolio now, they just had a big news event that came up and doesn't look good for the company, but they haven't released anything financially yet with the official financial documents to talk about it. So is the company going to go bankrupt in the next three months? No. So just wait. Something that you encourage me to do, just wait until those reports come out and you can make a more rational decision instead of something based on emotion.

Andrew [00:32:17]:

And so I think the combination of those things continuing to be invested in the market even when I didn't feel great about it, and then being slow to sell, I think those things have all helped make more rational decisions.

Dave [00:32:29]:

I think that's all very well said. And I think the focus for me was you have a system and you have a plan in place. And I think having a system and having a plan of how you're going to invest and how you're going to do it. Dollar cost averaging, doing research, trying to be consistent on when you invest. Friend Brayden Dennis said once that he buys, I think he invests every month on the first Wednesday of every month, regardless of what actual date it falls on, it's always the first Wednesday. And he just knows that's when he's going to buy. And so just by doing that, it helps him be consistent and have a system. Just like you were talking about having a system.

Dave [00:33:09]:

And I think that idea of selling slow, I think I read somewhere, you should buy slowly, you should sell even slower. And I'm not sure who said that, but I remember reading that somewhere, and I thought, that is really great idea because it's really easy to make decisions and it's really easy to react to things. And I guess one of the things that I would throw out there, too, is our Andy Schuler talked about creating speed bumps for yourself, taking your brokerage app off of your phone, so that if you're at work and you see something flash across the ticker, you're like, oh, my God, I got to go sell everything. You can't do it. And I think having some of those systems in place, too, to create some friction to making rash decisions, I think can help create some rationality in your mind. And I think having experience, the longer you do this, the more rational you'll be, because it's kind of like, yeah, I've been there, done that, seen this, bought the movie, read the book. And I think those things can help you overcome some of the fear that can certainly exist in the market. But bottom line is, I think by Andrew having a plan and a system in place that can really help create a rationality because it forces you to work through some steps before you do something.

Dave [00:34:26]:

And I think anytime you do that, you're going to be more rational.

Andrew [00:34:29]:

Something that really stood out to me during the 20 period was how you had bought Berkshire when it was a very unpopular stock to buy. So if you don't mind maybe taking us through that and how you did all the things that we're talking about, that was a very great buy low.

Dave [00:34:44]:

And not sell yet.

Andrew [00:34:48]:

How are you able to do that? How can investors emulate that?

Dave [00:34:51]:

Well, I think there were a few things. So, number one, I had been reading a lot about the company and I had been looking to buy it, and I just felt like it was not at a price that I wanted to buy. But as I was doing the work on the company during the pandemic, I realized that a lot of the businesses that they were in were really not affected by the shutdowns or were not really going to be affected by the shutdowns. There was some talk about car insurance and maybe how some of those things were going to react, but I don't think any of those really came to pass. And so all that really kind of led me to believe that the tide was going out, but this ship was still really strong. And so all the things that really drive Berkshire, I. E. The insurance business, the energy business, the train know, the retail businesses, all those things were still going to be really strong and were going to be necessary.

Dave [00:35:48]:

What was that, the. I can't remember the term now, but the essential. Essential, yeah. The central businesses, they certainly operated a lot of things that were going to be essential. BNSF, the railroad that they own, was going to be critical to moving supplies across the country. And as we needed supplies, that was one of the ways that wasn't going to stop. So, anyway, all those things said, and then thinking about energy, doing work on trying to find alternative or renewable energies that could be investable based on the criteria that you and I have was really hard. But then when I started studying Berkshire and discovering that they had their own energy unit within the company that was doing very, very well and was one of the larger renewable producers in the country, and knowing the fact that we were still going to need energy and that was not going to stop, we still need lights on our houses and to watch all the Netflix.

Dave [00:36:43]:

The Tiger king. If you're going to watch Tiger King, you got to have electricity on your computer. Right. So I just felt like that this was a great opportunity to swoop in and buy a really good company at a really cheap price, because I felt like the market was overreacting to what was happening globally. Yeah. Was it scary? Of course it was. But I felt like that there were companies like Disney, for example, were going to be harmed way more than Berkshire was. And so that led me to conviction that this was a time to take advantage of a dislocation in the price.

Andrew [00:37:17]:

I kind of gather that the way people think about Berkshire just kind of as a general assumption, and the way you're describing Berkshire sound like two different things to me, in a way.

Dave [00:37:28]:

Yeah. A lot of people look at Berkshire and think of it as Warren Buffett and his investment portfolio, and that's obviously a big part of what he does. But the majority of the income that they generate comes from insurance, car insurance, GeIco. They also have a huge presence in reinsurance, which, without boring you with all the information about reinsurance, it's basically insurance for insurance companies. So when progressive writes an auto insurance for Andrew, they may go to Berkshire Hathaway to back them up. If he buys a know, if he totals the out, progressive is not out all the money. Berkshire Hathaway will help cover some of the liability that progressive takes on as an insurer. And that is a huge profit driver and revenue driver for Berkshire Hathaway.

Dave [00:38:18]:

They're not the largest in the world, but I think they're the second or third largest reinsurer in the world, and that's a huge money maker for the company. And then you have the railroads, which I spoke about. Then you have the energy business, which I spoke about, which is actually one of the largest energy businesses in the country. Bigger than Duke Energy, bigger than southern energy, bigger than next era energy. And it doesn't get much press because it's kind of under the umbrella of Berkshire Hathaway. And everybody looks at Warren as the affable grandfather that gives him all the great advice and is a great investor, but he's also a fantastic businessman, too. And so that's what I think goes kind of under the radar. Then you have all the retail businesses that they own.

Dave [00:39:01]:

I mean, Dairy Queen alone is worth all the money in the world because of the fantastic soft serve ice cream that they serve. So it's a conglomerate of a lot of fantastic businesses that a lot of people just aren't as familiar with as maybe they should be.

Andrew [00:39:15]:

To me, one of my takeaways here is it kind of gives me hope, because I think with a lot of business, it's hard to say what the exact number of businesses fall under this category, but I think all investors have to put filters in, and they automatically say yes or no to a business because they haven't done deep, deep work into it. And so to me, that means there can be a lot of opportunities like a Berkshire Hathaway or whatever business appears in the next 510 years. And so, as an investor, if you can do these things we're talking about today, that can give you conviction that, hey, you've probably done more work on this than other investors who have so many other businesses they have to sift through, and you can find those gems underneath. I think the Berkshire example is a really great one where, if you understand the actual business instead of how people perceive it, there's an opportunity. So bravo.

Dave [00:40:12]:

Thank you. All right. Well, with that folks, we will go ahead and wrap up our conversation for today. I hope you enjoyed our discussion on ways that you can help yourself avoid buying low and selling high. So with that, we will go ahead and wrap us up. 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.

Dave [00:40:36]:

Bye.

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