IFB338: From Valuing Companies to Picking Brokers: Essential Advice for New Investors

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have episode 338. Today we're going to answer three great listener questions we got recently. If you have any burning questions and you're dying for us to answer them on the air, please send them to newsletter@envestingforbeganners.com or you can also send us questions at Spotify. They have a cute little thing at the bottom of each podcast where you can us questions. We are also on LinkedIn and Twitter as well, or x if you want to send us questions there as well. So we're here to help. So without any further ado, let's dive on into the questions.

Dave [00:00:35]:

Here we go. So we got what's a stockbroker broker to start with as a beginning investor? So Andrew, what are your thoughts? What's the best place to start?

Andrew [00:00:45]:

The good news is you have a plethora of options. The world is your oyster. That said, I'd probably stick to the big names. So just to throw a couple out there, I like fidelity and I guess I kind of like Ally. They're fine. And I also like Merrill edge. What about you?

Dave [00:01:05]:

I am a big fan of fidelity. I've also used Charles Schwab, and they're good as well. But there are tons and tons and tons and tons of them. Ibkr, or interactive brokers I know is a really popular one for people that maybe either invest outside of the United States or are investing outside of the United States. There's other ones that are more regional. I'm frankly not as familiar with them. So I don't want to throw out names and butcher them. But those are the ones that I would start with.

Dave [00:01:30]:

What would you look for when you are looking for a brokerage? Like what are a few things that maybe set one apart from another?

Andrew [00:01:38]:

So I'll give you four letters. You ready? SIPC. So basically to check to see if a broker is legit or not, check to see if they have a SIPC thing on their website that's going to tell you that it's not some fraudulent investor, they're not doing stuff where they're not staying compliant and all these things. And you should have investor protections similar to the way the FDIC has protections on your checking accounts up to a certain extent. So does brokerage accounts. Outside of that, because I would call myself an avid dividend investor, I have to make sure that a broker has drip or dividend reinvestment plan. And so I don't know if that's common now everywhere, but I know when I first started a couple of places, didn't do that. And then I guess the last thing would be partial shares.

Andrew [00:02:34]:

And that's what I love about fidelity, is you can start with as little as $5. So you don't need to have $150, $300 to buy a share of Apple. You can buy whatever shares of Apple with just $5. And it's a great way to start. As a beginner, what do you look for?

Dave [00:02:57]:

I look for all those things. I also look for what kind of fees or not fees that they may charge here in the United States. A lot of them are no fee brokerages, so you can buy and sell stocks on a semi regular basis without paying any sort of fees. If you want to trade options, then I think they do charge you fees, but that's not something I do, so I don't pay much attention to that. The other thing that I would look for is how easy is it for me to get money to them unless you bank with them? Sometimes it can be a bit of a challenge for you to transfer money from your bank account to the brokerage account. If you're unsure, you can do a little test run and send them $5 and see how long it takes. If it takes more than a couple, two, three days, I probably would question whether that's going to be convenient for you or not. And also, sometimes you can see, I know fidelity offers an automatic transfer, so you can set up automatic transfers from your checking account.

Dave [00:03:53]:

Or you could set up an automatic deposit from your payroll, so you could go to your payroll provider and ask them to direct a percentage or a dollar amount to your brokerage account. And that way you don't have to go through the rigmarole of having it to your bank and then transferring it as well. So those, those are some of

the things I guess I kind of try to look for as well. And also what kind of research they have on the website. Some are bare bones and some are going to be a little more in depth. And it really just kind of depends on what you want. I don't use it a lot, frankly, but it is helpful from time to time. When you're curious about something, you want to see what insiders and Wall street are saying about company b kind of thing.

Dave [00:04:32]:

So it could be helpful. So I guess those are some of the things I look for.

Andrew [00:04:35]:

Merrill has a really good platform for that. Get yourself a bank of Merrill account, link it with Merrill. They have all that research on there, right?

Dave [00:04:46]:

I guess the last thing I would throw out there is a lot of these brokerages now are also offering. In the past they didn't have this, but are also offering banking. So you can have a checking and savings account with your brokerage account if you want to. If you want to have all your financial wherewithal all within one place, those opportunities and options are more and more available every day. And so that's something you can do as well if you want.

Andrew [00:05:11]:

Yeah, make it easy, folks.

Dave [00:05:14]:

Yeah, make it easy. All right, finally. All right, here we go. So we got the next question. How do I know which ETF to choose? My husband has a Charles Schwab account, but I want to start investing myself some money I have on my own. Thanks. Love your podcast. It has taught me so much.

Dave [00:05:30]:

Sent from her iPhone. So, Andrew, what are your thoughts on this great question.

Andrew [00:05:34]:

If you had to put a gun in my head and said, buy an ETF, I would personally probably buy either ticker symbol VTI or ticker symbol spy. Both of them do similar thing. They're both index funds. Basically, all you're doing is

getting a small piece of a bunch of businesses. So for the VTI, it's a total stock market index fund, which means you're getting exposure to not just the s and P 500, but also the rest of the US stocks, which is very nice. And then spy gives you the s and P 500, which is all the, don't say all, but a bunch of the famous stocks that everybody might be familiar with and know. Microsoft, Apple, Google, Amazon, Nvidia, Meta Berkshire, Tesla, Broadcom, Visa, JPMorgan Chase. Yeah, I might be reading off a list, but that's just a sampling of what you get with ticker spy.

Andrew [00:06:27]:

And so I like those because I think the whole point of an ETF is to get diversification. And you certainly get plenty of diversification with either spy or VTI. Which ETF would you choose?

Dave [00:06:41]:

I would choose exactly the same ones. So I'm going to be super boring, and I would choose exactly the same ones for several reasons. Number one, to your point, you get all the benefits of investing in stocks without having to pick individual stocks. Picking individual stocks can be a challenge. There's lots of information you need to know. There's lots of work that need to be done. And if that just truly is not your jam, then that's probably not a good place for you to try. But etfs allow you to mimic or match the returns of the stock market, which we've talked about before can be 8% to 10% over 100 years.

Dave [00:07:20]:

So over the last few years, it's been closer to 15%, I believe. So you can do really well by investing in etfs, and so it allows you to get that benefit of investing in stocks without having to go worry about do I pick Microsoft or do I pick Nvidia? And the stress that comes along with trying to decide those. So there's that benefit. The way that I probably would do it, honestly, if I was going to invest this way is that I would actually open up a vanguard account, and I would choose etfs from Vanguard for several reasons. Number one, they have a million, so you can really just go nuts if you want to. The other thing is they generally have the lowest fees out there, and the lower the fees, the better, because that means there's less money they're taking away from you that you're not getting to compound over a longer period of time. They also have a lot of great research that can help you learn more about the etfs. But to me, the thing that I would look for would be looking for something that has this broader range of coverage of whatever market it is I want to cover, whether you want to pick the S P, the Dow, and the Nasdaq, which are the three main markets here in the United States.

Dave [00:08:39]:

You could choose three different etfs to cover that if you want to, but looking for ones that have lower fees so that you get to keep more of your money that you're investing. And if you do it through Vanguard, then they have an account that you can kind of your own brokerage account, if you will, and you can transfer money to Vanguard and they will automatically invest it into those etfs for you. So it can make it as, I guess, painless as you possibly could for your one. Now, you can buy these same kinds of etfs through Charles Schwab as well. They have them through there as well, so you don't have to open a separate account. But if I was doing it, I had the opportunity to open an account. That's the way I would go, just because of those reasons. And Vanguard's a trusted company.

Dave [00:09:21]:

They've been around for a really long time, and I know that they know have my best interest at heart when I'm investing with them.

Andrew [00:09:28]:

Yeah, they've really done extraordinarily great things for the industry. Jack Bogle in and great reputation.

Dave [00:09:38]:

Yeah, absolutely fantastic. Fantastic. All right, so let's move on to the last question. So this is from Tyler Nash. So I found your podcast while searching through Apple podcasts, and absolutely find everything you discuss. So insightful and helpful. So he has several questions for us. So the first question is, how do you know if a stock is overvalued, fairly valued, or undervalued? He looks at PE ratios, book value and eps, all the biggies, and he also assesses debt to equity and financial strength.

Dave [00:10:08]:

He looks at the ten K's and the ten Q's, and he feels like he has a good understanding of what a business is doing and their quality. But he struggles to know when a stock is priced fairly. So this is a great question, and I guess you want to take first stab, kind of explaining maybe what overvalued, fairly valued and undervalued maybe mean we can kind of go from there.

Andrew [00:10:29]:

Yeah, perfect. First off, thanks for writing in, Tyler. These are three pretty fun questions, given us a three parter here. So hopefully it's a pretty big bar to hop over to say it's insightful and helpful. Yeah, I'll shoot for one of those here. Overvalued, fairly valued, or undervalued. There's so many ways kind of explain it, but just

from the most basic idea is like fear versus greed. There are just times because the stock market's filled with individuals and we get really excited about things and we get overly pessimistic about things.

Andrew [00:11:05]:

The stocks can depart from what their true value is. And when we say true value, it's Warren Buffett likes to call it, what are the cash flows that we're going to get from this business from now until, you know, even that's arbitrary, because it's like, okay, how long are we talking here? But basic premise, I think if you can have a tool on your belt to say, okay, I can tell in general, if a stock is, people are lukewarm about it, or maybe regular about it, versus people are just crazy bullish to the moon. Everybody thinks it's going to the moon. I kind of look at something like that as overvalued. And then undervalued might be something like, man, people just do not like this stock. They don't want to hold it. They don't see a bright future. And so if you think of it from those three bucket classes and trying to get a grip on valuation, I think that's a good place to start.

Dave [00:12:01]:

Yeah, absolutely. I think meta over the last couple of years is probably a great example of how a company can switch from those three sometimes in a very short period of time. Two years ago, everybody and their brother thought that meta was overvalued, was not worth the price that you would pay for it. And then it became very unloved and it fell on hard times and the price dropped dramatically. And everybody and their brother all of a sudden started thinking it's super undervalued. And now they've bid it back up, and now everybody thinks it's fair valued because of how it's recovered and the performance of the company since the year of efficiency that Zuck announced last year at the beginning of the year. So I think those can be great examples of maybe how much you can see companies swing between those three ideas. Yeah.

Andrew [00:13:00]:

Do you trust in Zuck?

Dave [00:13:01]:

Right.

Andrew [00:13:04]:

No, we don't.

Dave [00:13:05]:

Yeah, I guess we do. So how do you know when a company is fairly valued under or overvalued?

Andrew [00:13:13]:

Well, I'm probably the wrong person to answer this, because I attack everything with a spreadsheet and a couple of formulas. So maybe you should go first.

Dave [00:13:21]:

Oh, boy. How much time do you got? The value of the company really comes down to the value of the free cash flows that the company generates over a period of time and the expectations that are built into the price of the company. So really what that comes down to, it's a lot of gobble goop, and it really means that how well is the company going to perform and what does the stock market expect it to? How does the stock market expect it to perform? And then we're all going to try to decide what we think is the fair value of that business. I always like to use a car as a good analogy for valuing something. If you go to a car dealer and you look at a Tesla on the lot and you believe, based on blue book value, which is, I guess, arguably a fair value of a business or a car. Sorry. And they say that the car is worth $30,000, and you go to the dealership and they're selling it for $45,000. Well, now you think that car is overvalued.

Dave [00:14:26]:

It's too expensive for the value of the vehicle because everybody else agrees that 30 is the value. Likewise, if you go to the same dealership and they're selling the car for $20,000, then it's undervalued. Or you may ask, what's wrong with it, but that's a side question. But you think it's undervalued now, and so you'd be willing to pay for it then, for sure. Whether it's 30 or 20, you're all in. But if it's 45, forget it. It's too expensive. And so because once you drive the car off the lot, it depreciates in value, so it's not worth as much to you anymore.

Dave [00:15:00]:

So that's kind of how I try to think about it now, as far as how do I do that? I'm a big fan of DCFs or discounted cash flows, and I feel like they can do a really good job in most situations to help you get a reasonable sense of what the company is worth. And that's more of the science part of it. The art part of it is trying to work around your experience with the markets, your experience with the company, your experience with business, and trying experience with just investing in general and trying to get a sense for what you feel like could be a fair value for the company. And that's where the whole idea of margin of safety comes into effect, because we're going to be wrong. And the values that we try to assign to Berkshire Hathaway are not always going to be full of biases. We're human beings. We all have biases, and they're going to be full of biases. And so trying to have a margin of safety or a buffer so that when those biases rear their ugly head, we don't get burned too much.

Dave [00:16:06]:

And so that's, I guess, kind of how I try to view it without going into all the technicalities of what a DCF is. What are your thoughts on this?

Andrew [00:16:13]:

Yeah, I love the way you kind of describe that, and it's the same way I try to look at it, too. So just, I guess, throw a log on that fire. The DCF really works best for companies that are more matured. I don't know if matured is the exact right definition, but they got stable, maybe. Stable, yeah, stable. They got to be producing cash flows. And so there is a pretty sizable portion of the stock market that that doesn't apply to. Think of the most exciting companies who have just ipoed or are in this hyper growth mode where they're just raising all this capital.

Andrew [00:16:51]:

That's a completely different beast. And there's a professor or two out there who's been brave to try to value some of those things, and I respect the heck out of that. But in those cases, you're kind of playing a different game where you're really trying to pick a winner out of higher stakes kind of outcomes. Whereas if you're looking at something that's stable and has cash flows, you can be a little more precise in assigning a value. And a lot of investors kind of agreeing to that, but there's always stipulations. There's always exceptions, I think confidence in management, their capital allocation skills, I think, can play into valuation. The longevity and the perceived longevity of a business can come into play. Any disruption risk now or in the future, can come into play, too.

Andrew [00:17:37]:

So some of those things are similar, but some of them can also be a little bit different, too. All of those things, I think, go into why the DCF doesn't always, hey, it's not like a laboratory where I can just put these chemicals in and get, I know what I'm going to get. It's not quite like that, but as a general rule, it's a pretty useful tool, paintbrush, to tell you like, okay, I can get a sense that people are really excited about this company, or I can get a sense that, all right, it's trading close to its cash flows, maybe people are more neutral in it, maybe I find value here. That's how I would kind of look at dcfs. And it is admittedly like a really tough task to try to learn, particularly if you're trying to teach yourself. Tyler, you did ask the question of how do we kind of look at valuation, and that's how we do it.

Dave [00:18:26]:

Yeah, that's exactly know. I love our friend Brian Fraldi has talked a lot about a life cycle of businesses and kind of how they go through a life cycle just like a human being does. They start off young, they grow, and then they become more mature or stable, and then eventually they start to go into the decline phase and then they go bankrupt. And really kind of, depending on where companies fit into that lifecycle, can help guide you for what kinds of ways you can attempt to value a company. And the reason why I say attempt is because whenever you're valuing a company, whether you're using a DCF or using any other type of valuation, you're really trying to forecast what's going to happen in the future. And none of us know what's going to happen in the future. We may have some good ideas based on what happened in the past and our experience, but none of us know for sure that this company will exactly do this. And if you ever doubt that, go back and look at some of the valuations that Professor Oswald Demotorin did in like, 2013 and 14.

Dave [00:19:33]:

If you go to his website, you can look at these old dcfs that he did, and you can look at Amazon in 2013 and look at it today and see how right or wrong he was. And it doesn't mean that he did a horrible job valuing the company. It just goes to show that we're trying to make predictions and trying to make. The only thing we know for sure when we value a company is the price. Everything else is estimates. And so it's always best to kind of keep that in mind. So if you're valuing Johnson Johnson or you're valuing trade desk, you can't use the same models because there are different places in their lifecycle. And you also have to consider what it is they do and where they're going and whether they're going to be the market.

Dave [00:20:19]:

There are so many things that go into this. Like Andrew said, it's not an easy process, but you have to do it. You have to start. You have to start practicing it and doing. It's like any other muscle. You have to use it. If you don't use it, you won't get any better at it. And so the best way to do it is just by doing it and then trying to assess whether you were right or wrong or how close you were to the right or wrong of doing it.

Dave [00:20:40]:

But it's not easy and you will make mistakes. And that's all part of the game is learning from those mistakes as best you can.

Andrew [00:20:47]:

So where should Tyler go then to start learning that?

Dave [00:20:50]:

Yeah, that's the $24 question. If you want to learn dcfs, I can help you. We can help you. We have tons of resources. On our website, I have a free DCF email course that I created that can help walk you through how to start building a DCF. And you can do it in seven days. And so you can just go to our website or you can go to Twitter and you can find, I will put a link, actually, in the show notes to make it easy for anybody that's listening so they don't have to go other places to look. And you can just look and you can sign up for free.

Dave [00:21:21]:

Just give us our email, and then every day you'll get an email that will walk you through it. That's the best way that I know how to do it is you got to put in the reps. It's like lifting weights. You got to put in the reps. And so this can help you get started and start learning what you like and what you don't like. And so that's a great way to start. Do you have another way that you would think of?

Andrew [00:21:42]:

No, I think that's perfect. Appreciate you putting the link in for people. I think that'll be really.

Dave [00:21:48]:

Yep. Yep. You're welcome. All right, so let's move on to the second part of Tyler's question. So he's asking, is there anything that you would suggest that would help me learn the tools and techniques for fine tuning my craft? So I guess, what are some tools or what are some different things that you use to try to help learn what you're doing?

Andrew [00:22:08]:

I guess we just answered that in a. Right.

Dave [00:22:11]:

Yeah, one. Yeah.

Andrew [00:22:12]:

The other tool I would give you, and I guess technique to go along with it is to read the annual reports for any business you're going to invest in. And to do that, you can pull them up on sec dot gov to get the official ten k form that they file with the SEC or bamsec, which is B-A-M sec.com. I love that tool for reading through annual reports. And I would say, if you got two hands, you got room for two weapons. If your weapon on the left to become a value investor, stock picker is a DCF. Your weapon on the right's got to be an annual report.

Maybe some glasses or magnifying glass on your eyeballs so you can actually read it. That's where I would go.

Andrew [00:23:00]:
What about you?

Dave [00:23:01]:
Oh, boy. I got lots of things. I think the first tool I would use beyond the ones that Andrew was mentioning would be Finchat IO. It's a financial website that our friend Braden has built, and it is a great collection of all the numbers and ratios and research that you can do to help give you a sense of where your company is, where it's going, and kind of really kind of dive into the numbers and give you a great way to compare Microsoft to Google to Amazon, if you want. And so it can make it really easy to do all those things. The other tool that I would use would be something like a taking, like evernote or notion or Google Docs, for that matter, someplace to notate your ideas, your thoughts, your questions. One of the things that I always try to recommend when you're reading through a ten k on Bamsec or a ten Q or an earnings report or anything of that nature, is taking notes, not necessarily where you have to write down so and so. Company grew 3.2% year over year.

Dave [00:24:15]:
No, that in the long run, doesn't matter. The bigger questions are, why did the company grow? What's with this new segment of business that I've never heard about? Why did they choose to buy back shares at $350 a share when the company was just recently selling for $200 a share? Are they just doing it to do it? All these things are things that you want to understand. Why are the inventories growing, but their sales are dropping. Well, that's not a good sign. Those are all things that when you observe them as you're reading, you want to notate and you want to figure out the answers to. Sometimes it's going to be right there for you in the financials. As you're reading them, you'll ask yourself a question and you'll discover, aha. That's what it is.

Dave [00:25:01]:
Other times, you may not. You may need to go to other places like a seeking alpha or our website, or substac, or even investor relations. There are plenty of companies that will respond to us. If we send them an email. You can send a question to the investor relations and most of the time they'll write you back. Not always, but most of the time they will write you back. And so that can be a great way to help doing it. But just like with the DCF, it comes down to doing it.

Dave [00:25:30]:

Most of us know what we need to do. It's just a matter of inertia, getting over the hump of not doing it, being afraid of making a mistake, or not knowing what I'm doing. The best way to learn is to do you watch apprentices in any sort of other craft, whether it's blowing glass, welding, building furniture, they all have hands on experience and we need to do the same thing. When we're investing, we have to put our hands on it and do it. And using Andrew's tools, using my tools or suggestions are great ways to kind of start honing your craft. I don't think there's no easy button. You just have to start doing it.

Andrew [00:26:08]:

Yeah. Is there like a system you think a beginner could follow, for example? I just started training for my first marathon, and so my brother in law found a program online, and that was really helpful because I wasn't just going to run whenever I had free time, you know what I mean? And try to run as much as I could to have a system to say, okay, you're going to do 3 miles and then 6 miles this day, and then 3 miles the next day was really helpful for me. So do you think there could be anything like that for somebody who's trying to embark on a journey like this?

Dave [00:26:40]:

Yeah, I think if I could give you three or four steps to get started, I think the first thing is pick one company that you are interested in. You're curious about something, you want to know about them, a product that is used. Maybe it's even the company you work for. Pick one company and read the financial report of that company. That needs to be the first place that you go. If you work for the company, you may already understand the business, but if you don't, then that be a great way to learn what it is that you do for the company that pays you. So start there. Learn what it is that the company does.

Dave [00:27:16]:

Try to start to understand the financials of the company. Try to understand the management of the company. And don't worry about maybe necessarily the finer details, but maybe take away the idea of the general tone of the way that management talks in the financial statement. So I would do that, and the next thing I would do would be to listen to an earnings call. You can go to quarter. That's spelled Quartr.com. It's a free app that you can download on your phone. You can also download it on your iPad or on the web.

Dave [00:27:53]:

And you can listen to an earnings call. That is a great place to pick up on what the analysts are looking for. So if you follow an earnings call, you will a learn the tone or how management responds to questions, good or bad. And that can give you a sense of who they are. Number two is you can find what the analysts are

asking about, because those are the things that they find important about the business. And that can be a helpful clue for you to go back when you're trying to analyze the business. Hey, three analysts ask about the debt of the company. Okay, what do I know about the debt of the company? And then you can start kind of digging in there.

Dave [00:28:34]:

So do those two things and then try to value the company using as simple a tool as you can. Price to earnings was probably a good, just general place to go and try to figure out a general value of the company and look at other companies related to that. So if you're looking at Costco, look at Amazon, look at Walmart, for example, or target, and get a sense of where those companies strengths lie. And I think if you do those things, that will start getting you down the path of where you are going. You could argue that putting some skin in the game, too. So if you're analyzing Costco, for example, open a brokerage account at Fidelity, put $50 into the company, you have skin in the game now. It's like this is real. And you'll be shocked at how much that makes your analysis.

Dave [00:29:25]:

Your eyes are a lot wider, your attention is a lot more acute, and you just feel like you're learning a lot more because now actually you got skin in the game. I guess that's kind of how I'd maybe start. What would you add? Subtract, throw on the log of fire on that.

Andrew [00:29:41]:

I would do all of those things. I think that's a perfect way to do it. I wouldn't say try to go for it every day, because you can't do something like this every day, and you should take a day off a week anyway. But the Charlie Munger idea of investing the first hour of your day in yourself, and so maybe for you, that's taking what Dave's laid out as a process and committing an hour, and it doesn't need to be every day. Maybe it's once a week, twice a week, four times a week, every weekday, just that first hour to kind of do that. I mean, I'm a morning person, so that makes it easy for me to say something like that. But however, your most productive hour is, wherever that falls, I would dedicate that hour to that. If you're really serious about wanting to hone your craft as a stock picker, I would do that and maybe set some time.

Andrew [00:30:34]:

I'm going to do this for a month or two months or 90 days, and then evaluate where are you and how much has it helped? I would bet you would feel like a new person even after, like, 30 days of doing this.

Dave [00:30:46]:

Absolutely agree. Yeah. Absolutely agree. That's the way to do it. All right, so let's move on to the third part of Tyler's question. Do you think it is more beneficial to buy consistently weekly or monthly, or wait until you feel like you find a really good, strong deal? Right now, I am investing about $500 a week into the market and buying five to ten shares of a stock, depending on the price. This definitely helps with dollar cost averaging, but I know Monise probray and others really advocate waiting until a deal emerges that really stands out. This could be a stock that falls out of favor by investors for a variety of unjustified reasons.

Dave [00:31:19]:

Would love to hear your thoughts on this topic. So. Yeah, me too. I'd love to hear your thoughts on this topic, too.

Andrew [00:31:26]:

Did he say something about dollar cost averaging and Manish Prabhrai?

Dave [00:31:29]:

Yes, he did.

Andrew [00:31:30]:

Okay.

Dave [00:31:31]:

He was kind of comparing the idea of dollar cost averaging weekly or monthly, compared to monish pro Bryan. The idea of kind of backing up the truck when you get a deal. Yeah.

Andrew [00:31:41]:

Thanks. Sorry.

Dave [00:31:42]:

That's okay.

Andrew [00:31:43]:

Complete space. There's got to be at least one of those recorded live at this point, right? There you go. If we haven't had know, I heard a great episode by the boys at value after hours. And they had John Huber on their show. And one of the things they were talking about was kind of like the game you're trying to play and how that can really impact your stock market strategy. So when I think of dollar cost averaging in particular, I think of the type of game I am trying to play. And I consider myself an average investor with average funds, and I imagine other people as average investors with average funds. And that's kind of how I set my stock portfolio strategy.

Andrew [00:32:27]:

So for me, dollar cost averaging is the easiest way to keep a habit maintained to continue to make progress. So whether I lose a job, get divorced, whatever the adverse financial situation is, you can always still make progress, push forward, and no matter what the market's doing, if everybody thinks that the world's ending tomorrow, or everybody thinks that the stock market is reaching the moon tomorrow, whatever the situation, if you're always putting in, then all of those outside factors are not going to make a difference in the long run. Now, if a famous investor is playing a different game, I'm not saying Manish Prabhra is doing this, but if any famous investor, maybe they have a family office, maybe they're already independently wealthy, maybe they truly have different goals than the average investor who's in accumulation mode, then their game might be different. And so it might make sense for them to not dollar cost average. And so there are definitely pros and cons, positives and negatives to dollar cost averaging or not. And it depends on your skill level and what game you're trying to play and how good you are at it. But that's kind of how I look at it. And I'd be curious if you've maybe vacillated between one idea or the other over time and kind of how that's looked for you.

Andrew [00:33:50]:

Dave?

Dave [00:33:51]:

Yeah, I have definitely vacillated between different ideas and what I've kind of settled on is that unless I have some sort of special insight or I've done enough research on a company that I'm comfortable enough that I feel like I know what I'm doing, I prefer to try to dollar cost average on a regular basis because a, it sets me up for a habit and continuing to build my wealth, b, it also helps me hedge against any sort of mistakes I may make. Because if you back the truck up and you're wrong, then you're really going to set yourself back. And so by trying to kind of hedge my bets, if you will, a little bit by dollar cost averaging, it helps, I guess, diversify or I guess eliminate that kind of idea. But the longer that I invest, the more I get comfortable with certain companies. If I take Visa or Berkshire Hathaway, I feel very comfortable with those companies. Am I an expert like a Chris Bloomstrand? No, but I feel like I know the companies pretty well. And so if I have an

opportunity to allocate more money to one of those companies that I feel like deserves a bigger portion of my portfolio, I'm comfortable doing that. But if it's a new idea to me and it's not an industry or a company, that I'm maybe as comfortable as I am with those two, for example, then I'm going to be more hesitant to air, quote, back up the truck.

Dave [00:35:28]:

The other thing that you have to keep in mind when you're trying to compare the game that we're playing to the game that Monish Prabhrai or Charlie Munger or any of those greats are playing. Part of it is they're brilliant people. And number two, that's what they do. That's all they do is study and think about these things. And number three is they have way more experience doing it. Charlie Munger was investing for 60 some years. Warren Buffett's been doing it for 70 plus years. Monish Bray has been doing it for about 30 some years.

Dave [00:36:00]:

So these people all have long, long history of doing this. And like anything else, the longer you do it, the more experience you get, the better, hopefully, you get at it, and the better insights that you'll have. The things that we may not see, we all read the same ten k, but we all have different insights into how the psychology of people and companies and customers work. And that's what sets Warren Buffett apart from me, for example, is he has insights into the customer behavior that I don't. And so for him to back up the truck on Apple makes sense because he understands customer behavior, whereas I don't. And so for me to back it up would be a mistake. And so that's kind of how I try to look at it, is I have to pick and choose my spots to go bigger into a company, but it has to be based on my experience and my knowledge of that particular company. Otherwise, dollar cost averaging every other week is awesome.

Dave [00:36:56]:

There's nothing wrong with it. There's no reason. Just because so and so does it means you have to do it, too. You have to kind of consider the context of what it is they're doing and how they're doing it before you kind of make a decision to go this way or that way.

Andrew [00:37:10]:

I love that. I almost feel enlightened. Am I the only one else too?

Dave [00:37:16]:

Awesome. All right, folks, well, with that, we will go ahead and wrap up our conversation for today. I hope you guys enjoyed the questions and the great answers, the insightful, hopeful answers that we were able to give Joe working. Thank you guys for sending those fantastic questions. Please keep them coming. Without any further ado, go ahead and sign us off. You guys go out there and invest with a margin of safety. Emphasis on the safety.

Dave [00:37:38]:

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

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