Investing for the Next Generation: A Conversation with Matthew Roseberry

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have a really special show. We have a fun show that we're going to talk about investing, of course, but we have Matthew Roseberry, who is an author of a book that I think is going to be a lot of fun to talk about. It's a teenager's guide on how to invest, like Warren Buffett and Charlie Munger. Where was this when I was a teenager? So Matthew is a self taught investor who started learning about investing about five years ago. And he had an interest in investing growing up, but didn't know any friends or family who did it like most of us. So he was intimidated at first to learn. He started by listening to podcasts, including ours, which I'm humbled to know.

Dave [00:00:36]:

And he's also started listening to anything and everything he could find out about Buffett and Munger, which led him to writing this fantastic book. So, Matthew, thank you very much for joining us today. We appreciate you taking the time out of your busy day to come talk to us. So I guess let's start with what got you started in investing. You said you had an interest early, so what prompted that?

Matthew [00:00:55]:

Well, thank you for having me on today. And growing up, you always see investing in movies and reading about it, and you see it as this way where opportunity to make a great amount of money and do all these great things. But you're not really sure. I wasn't really sure how to go about it. And so you just kind of put it on the back burner. And I was focusing on other things. But about five years ago, I started to think about what can I do to learn more for myself and just have more control over my own future and my own money. And so what I wanted to do was think about where should I start? And so I was searching for things like podcasts for beginners, podcast on investing, podcast on value investing, and just coming across some different podcasts.

Matthew [00:01:44]:

And after listening to a few different ones, I was able to come across a conversation with Monesh Prabhrai where he talked about how he got started. And it was when he was walking through an airport and he comes across the biography of Buffett by Lowenstein, and he reads it just by chance, and it goes from there. And so for me, looking to get started, it was that kind of just a fear of taking that first step. But once I kind of ripped off the band aid a bit and took those small steps, it compounded from there.

Dave [00:02:21]:

That's awesome. So what was the biggest fear that you had when you first started out, what were some things that maybe held you back from starting?

Matthew [00:02:28]:

So a big fear for me was, again, the portrayal that you get of investing, at least from my perspective. A lot of times you see it on tv or the movies, is you see the algorithms and all these fancy computer screens and five different computer screens for the day traders, and you think, well, I can't do that. And so how am I going to be able to do that? And so once I realized that that's not exactly what investing was about, that helped me in my process to get started further.

Dave [00:03:03]:

That makes sense.

Andrew [00:03:04]:

So was there something about Warren Buffett's story that maybe helped alleviate those fears? Was it something about Manish Prabhai's story? Was it something else completely? If you can take a trip down memory lane.

Matthew [00:03:18]:

So I think what clicked for me was, as I was listening to Monash and started to learn, and even started learning from different podcasts, it was that while you need a basic understanding of numbers and accounting, that really is a small factor in investing. The bigger issues to success are things like the mindset that you have, the psychology that you have in being able to self analyze yourself and figure out for yourself basically what game you are trying to play as an investor. And so once I realized that it wasn't this magical, mythical algorithm, hocus pocus formula that you, as the average individual person, could learn about investing by taking step by steps, by taking some time to go through the process and learn a little bit more as you go along.

Dave [00:04:20]:

What do you wish you had known earlier in your investing journey that you know now?

Matthew [00:04:25]:

So the big one for me is to figure out which game you are playing with investing. So that's a big concept that Morgan Housel talks about. One of my favorite authors is we're all playing different games with investing. And the idea of, you can say that I'm an investor, like you're an investor, like Warren Buffett's an investor. We're all investors. And there's a certain professionalism to that and kind of a respect to that, but it's kind of like saying, you know, I play basketball on the weekends, so I'm a basketball player. Like LeBron James is a basketball player. So we're all playing different games, and we all have different skill levels when it comes to that.

Matthew [00:05:04]:

And so I wish that I knew early on that once you figure out what type of game that you're playing and what your goals are, you have a much better chance for success. And also I wish I realized just how much more. The qualitative aspects and the psychology aspects of investing, the emotional aspect that you're able to control apart from the numbers is even more important than the numbers themselves, because, yes, you can learn about accounting and get a greater grasp of the numbers, but ultimately, what's really going to determine your success is the qualitative and the emotional, psychological aspects.

Andrew [00:05:41]:

So how would you define the game that you are playing yourself? And would you say that game, not that the game has changed, but maybe the game that you wanted to play changed, or has that stayed pretty much the same also?

Matthew [00:05:53]:

So I feel like when I was starting out, that I think in a way that as a new investor, you're trying to impress, or at least I was kind of trying to feel like I was trying to impress even myself to where I felt like I had to start looking about or learning about companies that would tend to be more difficult, especially for a newer investor. So, like, say, with banking, I feel like banking was an industry that I could understand, but I would try and look at the biggest, largest national banks that have huge balance sheets and all these different things that you have to go through. That's a much harder analysis than if you say, well, okay, I might be able to understand banking, but I can look at a local regional bank, and I can go through their analysis and look at them at their level. And so I think it's helpful to realize that investing can be difficult, is difficult and complicated, but you do not need to make it any more difficult or more complicated than it needs to be.

Andrew [00:06:54]:

Yeah, there's something powerful about Warren Buffett and might maybe, I guess you could debate how popular Coca Cola is these days. But I don't think it takes a rocket scientist to understand generally what Coca Cola is. And a lot of people like to drink it. And sometimes it can be. I mean, obviously, you have to do the basic financial analysis, right, to make sure a company is healthy and profitable and growing and all those things. But at the end of the day, they make a good product and it tastes really good, especially with Coca Cola.

Matthew [00:07:29]:

Again, you can focus on the quantitative aspects, but what really separates Coca Cola, what Buffett learned early on, was that they have a share of mind aspect to them. And so, especially with Munger's help, Buffett, they realized that the share of mind is what sets Coca Cola apart, and that Coca Cola spends billions of dollars in advertising at sporting events and the Olympics to have these positive associations in your mind, that you have all these positive memories of, this is what I was doing when I was drinking coke. And so Coca Cola is a big share of mind company and also the share of mind aspect. When for billions of people around the world, when you ask them to think of soda, the first image that comes to their mind is a can or a bottle of Coca Cola. In a lot of places around the world, they just call it coke. They don't call it soda. So that's what Buffett and Munger were able to figure early on and big part of what made them so successful. And so, again, they weren't just looking at the numbers.

Matthew [00:08:34]:

Yes. The numbers made know if you increase the price of Coca Cola just by a penny, you added billions of dollars to the. But so while that was important, what Buffett really saw was that by increasing share of mind and by working to increase that in the overall amount of people that would have that share of mind, that's what really sets Coca Cola apart.

Andrew [00:08:57]:

Yeah, I love that. So there are other examples of companies that something about them qualitatively really stands out to you.

Matthew [00:09:05]:

Well, seized candy is another great example. So I personally grew up eating seas candy. My family's out on the west coast in California. And so I have all these positive memories in the holidays of eating seas candy and around Christmas time and with my family. And so still now and doing that as a kid, but now here as an adult, when it becomes the holidays, even though I'm on the east coast, I still want a box of seas candy. And I go look to hunt and find where I can get one, even if I have to drive an hour to get it. And is it because seized candy is the best tasting box, chocolate candy? No, it's because of all those memories and the positive feelings that I have for it. And that's what Buffett and Munger figured out early on.

Matthew [00:09:49]:

And seized candy was really their first example of that. Buffett likes to tell the joke of, you take the seas candy with you to your first date. You give the seas candy to your date, and they give you a kiss at the end of the date, and Buffett knows he has you, that you're hooked, and he has a seized candy customer for life.

Andrew [00:10:07]:

No guarantee on the girl, but at least Buffett wins.

Matthew [00:10:10]:

Yes.

Dave [00:10:11]:

So are there any companies in the markets now that you feel like maybe have kind of those same characteristics beyond coke and seas candies?

Matthew [00:10:21]:

Yes. And so I think that's a good point because people can look at it and say, well, that's ancient history. Right. Buffett made those investments in the. But to me, if you look at Apple the biggest and most successful investment in terms of dollar terms. To me, that's really a share of mind investment, because, yes, the financials are great. They get great returns on equity. They have a great balance sheet, great cash reserves.

Matthew [00:10:47]:

But really, in my opinion, what pushed Buffett to make Apple such a large investment after not wanting to invest in technology for his whole career, for over 50 years, was that he realized that it was not a technology investment, it was a share of mind investment. And that for billions of people around the world, when you ask them to think of a cell phone, the first image that comes into their mind is an iPhone. And so Buffett likes to tell the joke. His big dawning realization moment was that he was talking to a friend, and the friend said that he would rather give up his private jet than his iPhone. And that's when Buffett made the big investment. So to me, Apple really is a big share of mine purchase. And I know listeners might think, well, Apple's a great company. I already know, you know, priced as a great company.

Matthew [00:11:39]:

Why should I maybe want to learn more about Apple if I'm probably not going to be able to invest in it? Because it's not at a great price. But there's power in studying companies that you already know are wonderful and figuring out what are the characteristics that set them apart from their competition, what competitive advantages do they have? How are they looking to strengthen those, how are they building those? And what sets them apart from their competitors.

Andrew [00:12:07]:

I'm literally staring. For whatever reason, I'm weird. And I put, like a Microsoft Windows logo as my background here on my desktop, and it's an all white logo. And I feel like Apple was the first company to really push forward the whole white aesthetic as a corporate thing. And now I drive down to different shopping centers, and it feels like even target has taken their trademark red and turned it white. And it just seems like everybody's going white following the leader. And I feel like Apple in particular seems to be the leader in a lot of different ideas, not just cell phones.

Matthew [00:12:46]:

Right. And it definitely gets into the aspect of the founder. With Steve Jobs, he's no longer with us. But having that founder led company and what he wanted to create, of creating things to be as simple and user friendly as possible when you were to look at the iPhone, just the amount of focus and energy and drive that he put into that is really what set that apart and what continues to set them apart today. And again with starting out as a new investor, thinking of what are things that I should look for or companies that I could look for qualities, leaders I could look for. One of the things that I realized later on I wish I known a little bit sooner, was that if you look at companies that are founder led, those companies tend to have characteristics or aspects to them that can set them apart from companies that are run by a CEO who comes over from another industry or another company who's only been there for a few years. The companies that have founders there, those founders care about the success of the company, and they're thinking about it in a way that just a regular CEO.

Andrew [00:13:56]:

Would not, or even being groomed up in that, like living the corporate life. So I'm a cheat a little bit because I'm familiar with your book, but I think about Costco as an example. The past two ceos who have taken the helm after the previous ceos are baked in the Costco culture like they are Costco company men. They rose through the ranks. They embody the Costco culture. And I know you're a fan of Costco based on some of the stuff in your book. So do you feel like a lot of the things we've talked about today can also apply to a company like Costco?

Matthew [00:14:37]:

Oh, yes. I love Costco. Let me count the ways. So I think the best way to set the scene for Costco is the annual meeting for Berkshire. Buffett told the story of Buffett's held up at gunpoint with him and the guy next to him, and the gunman says, are there any final requests? And the guy next to Buffett says, let me tell one final story about Costco. And Buffett interjects, shoot me first. So even the great Warren Buffett got tired of hearing how wonderful Costco was from Charlie. It's interesting to see that they never did invest in it.

Matthew [00:15:21]:

And I think it was because Charlie was on the board of Costco and Buffett didn't want to have that conflict. But they knew from early on that it was a great company. And we can see on the outside know Costco is a great company, and one of its moats is a price moat. It's the low cost supplier. And it's not only that. They not only give the customers the lowest price, they treat their suppliers fairly, which, again, is an ethos of the company that the ceos continue to have. Same with not wanting to mark up prices beyond the 15% profit rate. So the founder, he insisted on that, and they've continued on through that till now, because that's an ethos in the company that, yes, we could make a greater profit, but that wouldn't be fair to our customers and consumers and to have that focus of wanting to do what's best for them and is what helps set them apart.

Matthew [00:16:14]:

And the other big aspect to Costco is that it really also is a share of mine company in the favorable impression aspect of for customers. If you were to ask them to give up their Costco membership, customers would find it very difficult. And it's because of they know that when they go there, they're going to get the best price and value that they can and they're going to be treated fairly, maybe.

Dave [00:16:40]:

I know you mentioned Activision Blizzard in your book as well, and I'm a non gamer, so of course I've seen some of the games and I've watched them and whatnot, but I'm not a player of the games. So what is Activision Blizzard to people know, the three of us out in the world that don't play games, what is Activision? And maybe can you kind of talk about what you think their mode is?

Matthew [00:17:04]:

Yes, so I think that's a great question in that for Activision Blizzard, what it is is it's a social network for gamers. So if you're not a gamer, that's what it is. And it's important as a new investor to be able to say in a sentence or two what the company does, what's the purpose of the company? If you're not able to write out or speak out in a sentence or two, what is the purpose of the company, then it's most likely a company that's too difficult for you to fully understand. And that's an important aspect that I also wish I knew a little bit sooner, was that it's okay to realize if you do not fully understand something, to have that self awareness to say, well, I understand it maybe 75%, but there's still this part that I'm missing. And then to kind of leave it there and be able to go back to it later to finish out and make sure you fully understand it, because the only person that you're really tricking is yourself. If you think, I do fully understand this company, I'm ready to invest in it. And then you go to look at it and there is an area of an analysis that you're missing.

Andrew [00:18:23]:

What is it about the social network that can be so powerful? I agree with you. I guess my limited exposure to the company would be playing some of the games as a kid and then seeing my brothers play some of the games. And really in the past five years, I would say really seeing the social part of it really stands out to me. What about social networks can be strong for a business? And why does that make it a moat?

Matthew [00:18:48]:

So if you look at it, one of the key performance metrics for Activision Blizzard is their monthly active users. And in the book I looked at the 2020 annual report and they averaged 1 billion with a b active monthly users. And so if you put that into perspective, that's a lot of people, right. It's about three times this population of the United States. And so those people that are logging on, they're doing it because if they want to be able to connect with their friends or their family that is using the network, they have to be able to do it through there and there is an exclusivity to it. And what makes the network effect so strong is it just kind of compounds onto each other in that as more and more people continue to use it, you'll get more and more exposure to it. And even if I'm not using it or you're not using it, the target customer for Activision Blizzard is only going to be growing in their earning power and in their ability to connect. So it's an area where the potential for growth is great as well.

Matthew [00:20:04]:

So you have that working in favor for the company as well.

Andrew [00:20:07]:

Do you feel like for gaming in particular, do you feel like there's going to be like one dominant network? Do you think there's room for multiple. What's your take on that?

Matthew [00:20:17]:

I think there's room for a couple. I think in their space. Activision Blizzard is the market leader and that's important when you're starting out in investing to look for market leaders in the areas that you're researching. So there's also electronic arts, right? That's apples and oranges. They're two different target customers. Yes, you might have some crossover between the two. Right. But most people that are playing Call of Duty or World of Warcraft are not also playing FIFA.

Andrew [00:20:50]:

Or if they are, they're playing both.

Matthew [00:20:53]:

Right. Or if they have a preference for one over the other.

Andrew [00:20:57]:

Right. Yeah, makes sense.

Dave [00:21:00]:

So do you think that Microsoft buying them was a good move?

Matthew [00:21:03]:

I know this answer might seem simple, but there are power in simple answers. So my answer is yes, it was a good decision to acquire Activision and the reason for that is because I think on their key metrics, they're going to be bigger five years from now or ten years from now. They're going to be a bigger, more profitable company. They're going to have more active monthly users, they're going to increase the revenue. And that's really what it's all about. Now you can look at the price that Microsoft paid and you can think, well, maybe they paid too much of a price. But what really matters in investing are, and what Buffett and Munger focus on is the key question of is this going to be a more profitable company five years from now or ten years from now? And especially early on in investing, that's something I wish I knew because at least for me, felt like so much attention is focused on price. Am I getting this for the right price? Is it a good bargain? Am I doing this analysis correctly? But even if you get those aspects somewhat wrong, if your company is going to be a bigger, better, stronger company in five to ten years from now, the purchase price is going to, for the most part, to be able to take care of itself, and that you're at least not going to lose money on your investment, which is something that Buffett and Munger focus heavily on is not making the mistake of the downside, not losing money.

Matthew [00:22:39]:

I know a lot of investors focus on the upside of how much money can I make? But I think what really helps set Buffett and Munger apart is the inversion of what's the downside? How much money am I going to lose if this investment goes wrong?

Dave [00:22:55]:

Yeah, and that's what I love about Monish Prabhrai and particularly his book the Dondo Investor, where he talks about that idea of heads, I win, tails, I don't lose that much. And I think that's such a powerful idea. And to your point, simple. But it's easy for most people to understand is I can take a risk, but the risk has to be proportionate to what I think I can earn versus what I could possibly lose. And if I can limit that downside, you're going to be a long ways farther ahead than if not.

Matthew [00:23:25]:

And another point to go along with what Monesh likes to say, he points out that you only need a few good investment ideas to make yourself rich. And if you have three or five investment ideas that you get 20 times return or 50 times return or 100 times return, that can take care of a lot of investment mistakes. And so that heads I win, tails that don't lose much, that mindset really can help with picturing the overall success of what should I be looking for.

Dave [00:23:55]:

The other thing I like about that is I think most new investors feel like every investment has to be perfect. And if you don't hit 100% of every single choice that you're going to lose money. And I think the idea that you were talking about is you can pick ten companies and three of them may be fantastic investments and five of them may be good investments and two of them may not turn out the way you expect. And I think once you understand that your hit rate is going to be 40, 50, 60% and not 100%, I think it starts to take some of the pressure off of the agony of do I buy this or do I not buy this? And that's what I love about what you were just talking about.

Matthew [00:24:37]:

Exactly. It's like baseball, my favorite sport.

Dave [00:24:40]:

Now you're speaking my language.

Matthew [00:24:42]:

Yes. It's about a batting average. Right. And that's Buffett, something he talks about all the time. Baseball is his favorite sport. And that if you're successful, really successful, three out of the ten times you're going to be rich if you limit your downside and your losses on your other investments.

Dave [00:24:57]:

Right. Exactly.

Andrew [00:24:58]:

The point so kind of to that idea, if you've limited your losses, then the big winner doesn't need to be this once in a generation idea. It could be just something simple like Coca Cola or apple, because it doesn't need to be. You don't have to make up for as big of losses. Yeah, I love that idea a lot.

Dave [00:25:16]:

Yeah, me too. All right, so can we talk about how do we get. Andrew and I have eleven year old daughters, and whenever we talk to them about investing, we get the eye rolls. So I'm not sure if that's going to change much when they're 14 or 15. So how do I get a teenager interested in investing?

Matthew [00:25:34]:

So I think the best way to do that, really teenager or adult, is to focus on what are they interested in. So a point I make in the book is for teenagers to think about if you have a job, a first job, what are you spending your money on? Or if you don't have a job yet, what are you spending your parents money on? So I have a nephew and he loves Chipotle, eats there several times a week. And so he's a teenager. And my advice to him is to want to start learning about investing is start with Chipotle. It's what you love. We know it's a great company. And so now we have to figure out what makes Chipotle great, and especially for a new investor, I think it's a great way to start is to look at companies that you know are successful and to kind of reverse engineer what makes them so successful. Chipotle is a great example of that.

Matthew [00:26:32]:

And you think of, okay, why are they the only company nationally in the country that can make burritos? So I think there's regional companies, right, that do it, but there's no one nationally that's able to do what Chipotle does. And yes, there's Taco Bell, but Taco Bell and Chipotle are apples and oranges. So what sets them apart? And so if you are trying to get a teenager interested or anyone interested in investing, figure out what they enjoy doing, whether it's what they like to eat or if they like to travel or if they like to play games or if they like music. There's all different types of industries out there that you can start with and just have them learn about the companies. And you could maybe even trick them a little bit in a way of like, this is not exactly about investing or stocks, but just what's special about Chipotle? Why do you like it? And have them write out a list and look at those factors and kind of go from there.

Dave [00:27:32]:

That's great advice. Do you recommend? One of the things that I've read about, and I've done it a little bit with my daughter, is opening a brokerage account for her and telling her, I'm going to put $100 in this account for you this month. And what companies do you want to pick? And just letting them kind of make.

Matthew [00:27:50]:

Their own choices, I think that's a great point in that you can theoretically understand investing and you can do the paper trading accounts, but until you actually have skin in the game, until you're actually doing it for real, with real money, there's a difference there. And so if you give them that opportunity and then you give them some bit of that free rein, but then get them to explain, after fact, maybe a little bit of an after action report of why did you choose these companies, why did you pick them over these other ones and just kind of be able to have an open dialogue.

Andrew [00:28:23]:

Or discussion about, that's awesome. I'm just thinking about my daughter. I did something similar to what you're talking about, Dave, and didn't do anything. And then we looked back like a year and a half later, and when I told her how much money was in her account now, it was almost like it clicked. Like, oh, you can make money from this. So I don't know, there's just something weird about seeing it for yourself versus being told it can make a huge impact. Are there any other things that you think maybe are particular that the teenagers that maybe affect the way they think about investing or the way you can talk to them about investing.

Matthew [00:29:01]:

Yes. For teenagers that are numerically inclined, that enjoy the numbers, for them to really truly grasp the concept of compound interest, it's huge in investing because the two key variables in building wealth are the rate of your return and how long you can sustain that rate of return over time. So by starting as a teenager, it's a huge advantage. And yes, Warren Buffett is an excellent, amazing investor, but the biggest reason for his success is because he started at eleven and he's still investing now in his ninety s. So he has an over 80 year career to compound and that's what really sets him apart. So 99% of his wealth was accumulated after the age of 50. And so for a teenager to really understand that concept of if I start now, even if it's a small amount of money, the way that it can compounding and grow over time can make a huge difference. And that's why I put a part in the introduction of my book in that the teenage millionaire, because really most teenagers now have the ability if you start out at the young age to become a millionaire in your can start with an initial investment of just a couple of add to that over time.

Matthew [00:30:29]:

And so for the teenagers that are numerically inclined that enjoy the numbers just to have them see and kind of play around with the compound interest table or calculator, it's pretty powerful.

Andrew [00:30:41]:

Indeed. Indeed. Well, this has been fun. Matthew, I appreciate your time and coming. You know, could be a great gift for a teenager or even informative if you're a parent yourself. I don't know if I'd give it to a girlfriend for Valentine's Day or anything like that. But tell us about the know where can people find it? What's the best place for them to pick one up?

Matthew [00:31:05]:

Yes. So the book is available on Amazon. It's a teenager's guide on how to invest, like Warren Buffett and Charlie Munger. And it's a good book for teenagers as well as for those looking to start out in investing, for beginning and new investors. Maybe the one other thing I would want to talk about is kind of like the incentives, the power of incentives, especially for a teenager. That's important. I feel for them to important concept to understand.

Andrew [00:31:33]:

So where can people buy the book? Where can they check that out? What's the book called? Why would a teenager be motivated? Or is there a way to get a teenager motivated to read the book?

Matthew [00:31:45]:

So the book is available on Amazon. A teenager's guide on how to invest like Warren Buffett and Charlie Munger. It's a great book for teenagers or new investors and how to get teenagers invested or wanting to learn more. I would really turn to the power of incentives because incentives really matter. It's one of the biggest lessons that I've learned from Charlie Munger is that most people underestimate the power of incentives. So when you're starting out in investing and you're looking at companies, really look for what incentives are aligned to what the company is trying to do.

Dave [00:32:24]:

Yeah, that makes a lot of sense. That makes a lot of sense. Incentives are incredibly powerful, for sure. Matthew, thank you very much for joining us today. We really appreciate it. And please go out and check out his book, a teenager's guide on how to invest like Warren Buffett and Charlie Munger. I think it'll be very worth your while. I know I'm going to check it out so that I can share it with my daughter because it's going to be very helpful.

Dave [00:32:45]:

So I applaud you for what you're doing and trying to help get more people started earlier in investing. That's awesome. And we again appreciate your time coming and talking to us today and everyone, 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. Bye.