Back to the Basics: Standing on the Shoulders of Giants

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we are going to talk about back to basics. So this is a continuing series that we're going to release once a week as part of our duopoly shows that go out every week. And we're going to talk about a variety of different things. But today we're going to talk about standing on the shoulders of giants. We're going to talk about super investors and how they can help you become a stock picker yourself. So the three that we're going to focus the most on today are going to be our biggies, Warren Buffett, Charlie Munger, and Peter lynch. And so with that, why don't we go ahead and start talking about maybe how you can look at super investors and how can they help an individual investor like us or a newbie? How can they help you get inspired to start?

Andrew [00:00:45]:

It's a great idea. I mean, it sounds really simple, but it can be profound. The thing about stock market and investing and money is people can be really convincing when they're talking about it. But there's something to be said about having a track record that's public, that people can look and verify that you know what you're talking about, because again, it's like an armpit opinions about the stock market. Everybody has one, but not all opinions are equal. And so especially as a beginner, looking at somebody like Warren Buffett, who's been the best investor over the last 70 plus years, Charlie Munger, who's been his right hand man and guided him all along the way, and Peter lynch, one of the big rising stars that had one of the best public track records ever in a short time period. All three of those guys are super generous with their knowledge, have the heart of a teacher and really want to help. And they have the reputation and the track record to back all of those things up that make it worth checking out and taking those lessons for yourself.

Andrew [00:01:57]:

So I guess for you, when you think of some of the best lessons that these investors have taught you, what are the first couple of things that spring to mind?

Dave [00:02:07]:

Oh boy, there's so many. There's so many. I think before I kind of dive into that as a musician in a former life, it was standard practice to study the giants that came before you as a way to build your foundation, before you started expressing your air quote, own voice. And so playing guitar, that meant that you were not obligated. But it was highly encouraged to listen to the greats that came before you, the Jimi Hendrixes, the BB Kings, the Eric Claptons, Steve Ray Vaughn's younger generations, Eddie Van Halen, Joe Satriani, Steve Vi, just on and on and on. Dwayne Alman. I mean, there's just so many Eric Johnson. I could go on for hours about all these people, but that's how you learned how to kind of build your knowledge base.

Dave [00:02:59]:

And the same rule applies for piano players, for vocalists, for saxophone players, bass players, drummers, you name it. And so it's very natural in the music industry for this kind of idea to be very prevalent and natural, and most people don't even think anything of it. But for whatever reason, in investing, sometimes it feels like it's a solo sport and you got to do it all by yourself and you got to figure everything out all by yourself. And one of our other heroes, Monish rabrai, talks about, is, why do all the hard work, why do all that heavy lifting when you can look to people like Warren and Charlie, for example, to help give you great examples, to kind of lift you up. So some of the things that I learned early on from Buffett was things like, you don't have to swing at every pitch, you don't have to buy every single company, and it's okay to miss on Nvidia, it's okay, it's perfectly fine, and you can still have fantastic returns without investing Nvidia, can you do the same thing with Berkshire Hathaway? Maybe, maybe not. But I'm joking, of course. But I think that was the biggest thing to me, was that I didn't have the pressure of, like, I have to do everything else everybody else is doing. You don't have to buy everything else everybody else is buying.

Dave [00:04:15]:

And that was like one of the first big early lessons for me. What about you?

Andrew [00:04:19]:

That's a huge one. I like that one a lot. I think one of the big ones for me was this idea that stock prices follow business results. And more specifically, Peter lynch laid it out in saying that if you looked at a chart of a company's EPs earnings per share, compare it to its stock price, and you zoom out and look over a long time period, it's almost identical. And Charlie Munger, was it Munger or Buffett had a similar quote saying, if you have a company that's earning 6% on its capital over the very long term, you're going to have an investment that earns about 6% on its capital.

Dave [00:04:57]:

Right?

Andrew [00:04:57]:

So a lot of different ways to say the very same thing, but such a profound wisdom there, because to your point, everybody wants to talk about Nvidia or whatever the flavor of the month is and how you have to be in it and how it's doing this, changing the world like that, if you're not in it, you're behind, blah, blah, blah, blah, blah. And you get all of this attention around whatever stock pick has done the best in the past year, two years, three years, when really the power in the stock market, the power of compounding, is over decades long. And having businesses that maybe they grow 10% a year and then their stock price grows 10% a year, maybe they grow 15% a year and their stock price grows 15% a year. Those are the kind of stories that are on such a long timeline that they never make the press until you're looking back at a career or something like that. So to be able to again, take away the mindset from being so short term focused and stock market focused to being really business focused is such a breakthrough and really can change the way that you view how you're doing yourself, how your portfolio is doing, and also what kind of opportunities are out there now and in the future. And it's simple, but kind of contrarian in a way.

Dave [00:06:28]:

Yeah, it really is. One of the lessons that I learned early on from Warren was this idea of competitive advantages, or moats. And to me, that was, along with not having to swing at a pitch and along with understanding the business, really impacts the returns that you get. The idea that you can have a company, that is the reason why this company outperforms the other one. It's not just because it's more popular. It's because their products and their services are either that much better or sticky or addictive, or however you want to label it. And that's what makes those companies so successful. It's not the slick marketing and it's not the cool people advertising for it or representing it.

Dave [00:07:16]:

It's the awesome business that's underneath that shiny ticker that you see scrolling across your screen. Once you understand that, once I understood that, hey, this is something that can set me apart from other investors, is understanding these things about these particular companies and trying to identify them. It's something I learned early on, and it's been an ongoing search for the last seven, eight, nine years, is to try to find those kinds of companies. And that's what I spend probably the majority of my time thinking about is, does this company have a moat? What is, you know, for those not familiar with this kind of idea, a moat is really a competitive advantage around a company. Warren, I think, described it really vividly. When he said, I want a castle with a deep moat, a wide trench of water around the castle full of piranhas, alligators and sharks. And he said, that's what to me, a moat is. And I think that illustrates it perfectly.

Dave [00:08:15]:

And that was a huge lesson for me that I learned from him.

Andrew [00:08:19]:

So what's an example of a moat that's easy for a beginner to understand?

Dave [00:08:25]:

There's probably a few that probably jump out. I think probably the first one I would think about would be the idea of a brand giving it company a competitive advantage because it becomes a name. And when you think of a product or a we Google. We Google things, it's a verb. And when you say, I Google something, everybody knows what you're talking about. You went to the website, you clicked in search, and you look for know YouTube. Everybody knows what YouTube is. Netflix.

Dave [00:08:59]:

Everybody knows what Netflix. Starbucks. Everybody knows what Starbucks is. Nike. Coca Cola, Apple, Amazon. All these companies, besides their operational business excellence, they have a brand, and it's not something you can necessarily quantify on a financial statement, but it certainly gives them strong presence in a market. And whenever you come across something like that, it makes it a stronger business. Bing is Microsoft's competitor.

Dave [00:09:31]:

I'm a big fan of Microsoft, but I don't use Bing. I use Google. It's better and that's why people use it. And to me, that's, I guess, an easy way to visualize a part of a mode. There's lots of components of it.

Andrew [00:09:43]:

Yeah. To kind of dive deeper into that a little bit, I think of Amazon's brand. They have that smiley face on their, you know, I remember first seeing that on the box and I thought it was kind of cheesy when they started doing that. But it was funny when my daughter had a package that she was expecting in the mail through Amazon, and she sees that Amazon truck driving by as we were walking, the, you know, just the joy she had and the extra hop in her step. And I told the, you know, you just made her day right there with this delivery. And that's kind of what you think of if you think of the Amazon brand and what it's able to convey because it's so much more than just a store, even an online store. There are know countless online stores, but certain brands are able to go deeper than just that functionality that the business is doing. I think there's only a few businesses that can do it well, but the ones that do definitely do have a moat because you just can't replace the association of the convenience and the happiness you get from an Amazon package that arrives at your doorstep so quickly.

Andrew [00:10:56]:

You can't duplicate that super easily in the way that they have done. And you can say the same thing about a lot of the other brands you talked about.

Dave [00:11:03]:

Yeah, that's a great example of how impactful the moat can be on a company. And as investors, those are the kinds of companies you want to find because they're going to have long term growth or long term success without getting into the nitty gritty. They're going to have long term success as a company. And those are the kinds of companies that will give you good returns for a long period of time. And you want to try to find.

Andrew [00:11:31]:

Those companies and to kind of go back to that track record idea. Buffett's built a big portion of his wealth with Coca Cola and with Apple and Charlie Munger with Costco. And you would say all three of those brands convey some sort of positive feeling with their customers and have had really strong moats because of the way they deliver on their brand promise. And it has shown with the way those stock prices have just been just wonderful, wonderful compounders.

Dave [00:12:02]:

Yeah, exactly. I created this interesting graphic that I saw this chart online the other day, and it was talking about the length of time that Charlie, or that Warren Buffett has held some of his companies, and he's owned Coke for 34 years. He's owned American Express for 29 years. He's owned, I think it was Moody's, visa and Procter and gamble for 22 years. Globe life insurance nobody's ever heard of. He's owned that for, like, 25 years. And those are also, ironically, correspondingly, some of his larger positions, too. And so that just goes to show the compounding that he's generated in his own portfolio by holding those companies, that Coca Cola and American Express, for example, are two of the strongest brands out there.

Dave [00:12:47]:

You see those logos, you think. You talk about those companies, you say the words Coca Cola or American Express, everybody knows what that is. And you don't need to, you know, Moody's is, you know, people don't know what that is unless you're, like, in the finance world. But Coca Cola and Procter Gamble, and, you know, right off the tongue, everybody knows who that is.

Andrew [00:13:07]:

So asking the Midwest guy in the room, what part of the country is it that calls everything a.

Dave [00:13:14]:

When I lived in Tennessee, everybody called a coke. Everything was a coke.

Andrew [00:13:17]:

Not a soda, not pop, not a soda.

Dave [00:13:19]:

When I lived in Wisconsin, everything was a soda. When I was in Iowa, and Minnesota, everything was. Yeah, super.

Andrew [00:13:26]:

There's that brand power right there, right?

Dave [00:13:28]:

Yeah. But it was still coke. So I guess we've talked a lot about Warren. What does Charlie bring to the table? What is his giant? What can we learn from him? And standing on his shoulders?

Andrew [00:13:39]:

Yeah, I mean, not to mention the fact that he was the one who talked about standing on the shoulders of giants in the first place. There's so much like you. You know, we obviously did the episode about Charlie Munger. If you haven't listened to that yet, go check it out in the archives. I felt that that was all encompassing, at least a better, broader overview of some of the best things that he has put into our investment philosophy. One of the bigger ones, I think, is this idea of finding a business that can paying a fair price for a good business versus paying an awesome price for a business that's mediocre. And I think that advice is going to be subjective for everybody. I think everybody's going to have a different temperament, a different goal to what you're trying to do.

Andrew [00:14:33]:

So if you go back to episode one of our, back to the basics that we've just started, we talked about figuring out what you want. But for me, because I want to try to hold a business as long as I can and let them do the work, understanding you're going to have to probably put a little more trust in the business. When you do that, it's not going to be a successful strategy to also buy mediocre businesses and do that as well. I think it was Warren Buffett had a quote saying, time is the friend of the wonderful business, but the enemy of the mediocre business. And when I think of mediocre, I think of something that doesn't have a moat. And what happens when a company doesn't have a moat? Well, other people come in and they copy it and they do it better. And because you don't have any way to defend them, you don't have anything special about your business. Your lunch gets stolen and that happens.

Andrew [00:15:22]:

Capitalism. BlackBerry? Nokia. Yeah, the horse. And so, you know, with that in mind, if you focus your universe on businesses that are better, you don't have to do as much trading and worrying and jumping in and out of things. And it might take time to build a portfolio that really can stand the test of time, but that time is probably worth doing and well spent if that gets you closer to your goal, which is what I'm hoping to get to. And that's something, I think, without Charlie's influence, I don't know if that would have been such an obvious thing to go for for me. What about you?

Dave [00:16:05]:

I think that was a big one. The other big one for me was this idea of. I feel like he was the father of behavioral finance. The idea of our temperament, our moods, the way we think and how we think about things so drastically impact our results in life that we a lot of times aren't even aware that we're doing it. And I think you really laid a lot of groundwork for the behavioral finance that we have now. And just the ideas of thinking about the fear of missing out or confirmation bias, those are two big ones. He has a lot of them. His lattice work of mental models, all these ideas of how much investing is really behavioral versus understanding the numbers, just our temperament and our patience, or lack thereof, can really impact our returns more than we know.

Dave [00:17:04]:

One of my favorite Charlie sayings, a never interrupt, compounding unnecessarily, I'm paraphrasing, but that's right. Yeah. And I think these ideas of how much our mental acuity and our behavior, emotional stress or status will impact our results is huge. And in investing, we always feel an urge to do something. And if you've learned nothing else from Warren and Charlie's investing career, they didn't do much. And it doesn't mean they weren't doing things, but they just weren't making a lot of activity in their portfolios. You don't own a company like Coca Cola for 34 years if you're buying and selling a lot of stuff. When Charlie passed, he only owned four investments, Costco, Wells Fargo, US bank, and a fund that Lilu managed from China.

Dave [00:18:03]:

That was it. And he held all those for many decades. And so you don't have to have activity for activity's sake. And that's something that I really learned from him, is a lot of the time, the doing is actually sitting on your butt, not doing anything. And that is hugely impactful because it allows you to think instead of reacting. And in our day and age, with the access to so much information and lots and lots and lots and lots and lots of noise, it's real easy to get emotional about things. And that was, I think the thing I took away from him kind of about the behavioral finance, was that he was very unemotional. I'm saying he didn't have feelings, but he was very unemotional.

Dave [00:18:46]:

He didn't react to things positively or negatively. He was just kind of that ship sailing on the ocean. Even though the Caesar could be very rough he wasn't rocking with the boat. And I think that's so powerful. And if new investors can just learn that kind of patience and steadfastness in the face of craziness, you're going to go a long, long ways.

Andrew [00:19:11]:

You really are. I mean, how many times did Costco look expensive?

Dave [00:19:16]:

Every day.

Andrew [00:19:19]:

And he admitted, I'm not going to buy more of it at the prices it was at. But he also did not sell it, also because he understood the compounding that the business was doing is more important than what the stock market thinks about the company.

Dave [00:19:33]:

Right? Yep, exactly. He was a huge influence on, you know, Warren just released his latest shareholder letter, and he had this really touching moment in the beginning of the letter where he kind of talked about the impact that Charlie had on him and the business and really gave Charlie a lot of praise for being really the architect for the Berkshire Hathaway that we know. When he was talking about it, I could see that all happening just based on the interactions that you observe during the annual meetings that they had. You could definitely tell that he was brilliant guy and he had a huge impact on Warren and the rest of the investing world, but he wasn't out front and he didn't take a lot of credit for it. So I think a lot of people didn't realize, don't realize how big of an impact he's had on investing.

Andrew [00:20:24]:

Yeah, and probably will for a very long time. So how can a beginner, speaking to a beginner in particular, when you feel like sometimes you're drinking from a fire hose, and when there's so much to learn, how can a beginner start to have that kind of a mindset of patience and not being swayed emotionally? And some of those things that can really help your investment performance.

Dave [00:20:51]:

As far as, like, outside factors, there's a few things you can do to try to help minimize some of that. Number one is try to limit your access to financial news, particularly a video news. So watching CNBC or watching any other Fox News or any of the other news programs that are on TV, their job is to draw eyeballs. And the way they can do that is by making things as controversial or as exciting as they possibly can. And that's the exact opposite way you should invest. And so it's fine to watch it, but as long as you can detach yourself from the emotion, if you're watching it for entertainment's sake, okay, fine. But if you're watching it to get ideas to invest or inspiration or those kinds of things, I think I would be wary about taking too much stock into what somebody is saying in a 32 2nd blip on TV. I'm not saying that these people are doing dishonest things or trying to lead you astray, but you have to understand the incentives that they're all having is to be exciting, controversial, and draw eyeballs.

Dave [00:22:07]:

And I guess the less you can avoid that, I think that's helpful. Kind of similar to written news. I don't feel like that's as bad, but it can be. Depending on what your source is that you're looking at, it can be very sensational and you want to try to avoid that stuff. So if you're going to remove those things from your life, I think that could be helpful. Not having your fidelity app, for example, or Robinhood app on your phone would be a really good speed bump. Again, if you're watching CNBC and you get super jazzed about some company and you really want to buy it without doing any sort of research, if you don't have it on your phone, it just makes it that much harder for you to do it and can slow you down, hopefully give you enough pause to go, do I really need to do this? And just by asking yourself that question, you can start to separate yourself. So those are a couple of things that I can think of.

Dave [00:22:56]:

Do you have any suggestions?

Andrew [00:22:57]:

I guess this is something that's kind of come out of the. It's a consequence of me having done the newsletter for so long. But I think there is some utility in this idea. Schedule a time every month where you're allowed to buy and sell stuff, and then the whole rest of the month you're not allowed to touch your portfolio. I don't know how powerful that is because, well, I guess that's not true. I've played with options and I've understood what it's like to have your window open. Twenty four seven, and that's way too much. And so, yeah, I think telling yourself, hey, I'm only allowed to buy on the first of the month or the first Monday of the month, or the first business day of the month.

Andrew [00:23:32]:

And all the other time. If you want to sell something, you're forced to spend 29 days to think about it before you pull the trigger. Then the longer you can think about big decisions like that, the more logic can start to factor into that decision and the less that emotion can sway that decision. That could be another speed bump.

Dave [00:23:54]:

Yeah, and that's a great one, too. I think those three things could really help force yourself to slow down before you make decisions. I think that'd be very helpful.

Andrew [00:24:01]:

I'll throw one more in there.

Dave [00:24:02]:

Okay.

Andrew [00:24:03]:

Focus on content that is everlasting rather than content that is topical. And so the things that are everlasting, principles, wisdom from guys who have invested for 70 years. Those things have become principles and timeless for a reason, because they have worked. They have literally stood the test of time. That's definition of timeless. And those are the things that will help you become an investor. Understanding what the economy is going to do in the next two weeks or three months does nothing to your skills as an investor. And all it does is create worry and emotion that hurts you and doesn't help you in any way.

Dave [00:24:46]:

Yep, I agree. What did Charlie say? Spend time with the eminent dead. And that's a great way to get.

Andrew [00:24:53]:

Cause that kind of rhymes, too.

Dave [00:24:55]:

Yeah, it really does. I don't remember the numbers, but I was listening to Morgan Housel talk about his new book, and he was talking about how many people have been on the earth from the past versus today. And the percentage is quite staggering. How many people aren't. Today's population of the earth is like 2% of the whole population of humanity from time beginning to today. And so to ignore all that history and only focus on the present is setting yourself up for failure. Because even though technologically, these people, 1000, 2000 years ago, they weren't on our same level technologically, but intellectually, some brilliant people have lived during that time. And there's a lot you can learn from the past.

Andrew [00:25:47]:

Are you a fan of biographies?

Dave [00:25:49]:

I love them. Big fan.

Andrew [00:25:51]:

What's your sales pitch to somebody who hasn't read more than ten pages of a book before?

Dave [00:25:56]:

Why should I?

Andrew [00:25:57]:

Biography.

Dave [00:25:58]:

Well, I mean, to go back to Charlie, to paraphrase, he's never known anybody that wasn't smart or good at what they did without reading. And that's really the only path there is to get good at it. And the trick is to find something that you like that can keep your attention and just work away at it. I think it's. Shane Parrish talked about reading 20 or 25 pages a day. And if you do that, then you can read something like, if you set your mind to it over the course of 365 days, that can put you. You can read the Bible, you can read. I think it was War and Peace.

Dave [00:26:32]:

I think you can read way Miz. These are all like 800 to 1000 page books, and nothing that we're talking about is that long unless you read all of Warren Buffett's writings, which is 3500 pages, that's a big chunk to chew off. But if you can find something that you think is interesting, I mean, a biography of guys like Benjamin Franklin and Julius Caesar, or even more recent people, FDR, Abraham Lincoln, Steve Jobs, Elon Musk. Walter Isaacson has written a lot of those books he's written, and he's a great writer, and he makes them very entertaining. If you're struggling to read, Steve Jobs is somebody everybody knows. He had a very interesting life, and he was a very interesting character, to say the least. And I think reading ten pages of a day about his life will fascinate you to endlessly. So that's what I would do, is I would try to find something that appeals to you.

Dave [00:27:29]:

Not everybody's going to like finance books, but I think biographies are about real life or history of the stock market or just history in general, I think it's fascinating. And I think once you start picking it up and working through it, just ten pages a day, that's like 15 minutes a day, and everybody's got the time to do it.

Andrew [00:27:44]:

Yes.

Dave [00:27:45]:

And you'll be shocked at what you can learn and how much you can get through just by consistently doing that little bit, frankly, I've done that. I've been trying to read Shakespeare's works for many years, and I finally decided, all right, screw it. So last year I decided I'm reading 20 pages a day and I'm going to read everything that Shakespeare has written. I'll probably finish sometime this year, but sometimes it's a grind, but I'm still doing it because it's something I want to do. I think I can learn a lot from it.

Andrew [00:28:12]:

I like to look for the shorter the book, the better. The bigger the text, the better. I'm a big fan of audiobooks, and so if you're not great at reading on text, audiobooks is a great way to go. Put on an audiobook and go for a drive and see how much you absorb.

Dave [00:28:29]:

Yeah.

Andrew [00:28:30]:

And I like the audiobooks that are shorter. Like if something's 10 hours or longer, I know I'm probably going to get bored halfway through almost every time. Almost like.

Dave [00:28:38]:

Right.

Andrew [00:28:39]:

Shakespeare would probably qualify under there. Sorry.

Dave [00:28:41]:

Right. Yeah.

Andrew [00:28:44]:

But a memoir like Shoe Dog by Phil Knight, movie out of it.

Dave [00:28:49]:

Yeah. Awesome book.

Andrew [00:28:51]:

Charles Schwab out of something, I think he called Talk to Chuck or.

Dave [00:28:54]:

Yeah, yeah. Really good.

Andrew [00:28:56]:

I love the recent business people, especially in the stock market context, because those are businesses right now. You can go out and buy Nike right now and still feel that legacy. If you're like me and you kind of struggle through some of that stuff.

Dave [00:29:15]:

Make it easy for you. Don't, you don't need to go read security analysis. That'll put everybody to, you know, two other books that I failed to mention, psychology of money by Morgan Housel, is, you know, super easy book to read. And it's very well written. And he tells stories. He teaches you by telling you stories, and it just makes it really easy to read. And I think I probably read it in two or three days. And also, our friend William Green's book, Richard Wiser, happier, is also extremely well written.

Dave [00:29:48]:

Again, telling know, teaching you by telling you stories and anecdotes and everything, it just makes it really easy to read. And those would be fantastic books. If you really want to start getting into reading and know all the people that we've talked about today, from Warren to Charlie to Peter lynch, all of them were avid, voracious readers. And if you can start to learn to develop that habit, it'll help you unfold.

Andrew [00:30:13]:

How long do you think it took you to develop that as you started in your investing journey?

Dave [00:30:18]:

I'm probably weird in that I already had that love of reading way before I got into investing. When I was a kid, I was the quintessential nerd, and I knew that two or three librarians in my local library by first name, and they would always help me pick out books, and I would take home eight to ten books every time I'd go to the library. And so I love to read, and I have ever since I was a little kid, so I'm probably not a good example. What about you?

Andrew [00:30:45]:

I'd say it's common, like bits and spurts. So when I first started, I got really into it, and then sometimes it can kind of get boring or things get complex. So I think the advice you mentioned in the beginning of follow what interests you is really helpful when it comes to the reading thing. And then something I've talked about before on the show, Shane Parrish talks about, I think it was him quit books that bore you. There's too many books out there. You can't read them all. So if a book's boring you and you're, like, dreading reading it, then pick up something else. And that action of having consistent reading habit, I think, really helps.

Andrew [00:31:26]:

You know, Charlie Munger might say something brilliant, or Dave Ahern, for that matter, might say something brilliant, and I might not internalize it until I have to read it three more times somewhere else. Right. And so the same thing as your beginner trying to learn how to be an investor. It's okay. That's the way we learn is by getting things pounded into our head. But you won't get there unless you have a reading habit.

Dave [00:31:51]:

Yep, exactly. All right. Well, with that, we will go ahead and wrap up our show today. Thank you for listening. We hope you enjoyed our back to the basics, talking about some of the giants, Warren Buffett, Charlie Munger, Peter lynch, and how you can stand on their shoulders and learn from them to start to become an investor. They can be very helpful. And with that, we'll go ahead and sign us off. You guys go out there and invest with a margin of safety.

Dave [00:32:16]:

Emphasis on the safety. Have a great week, and we'll talk to you all next week.