Back to Basics: Essential Tools for Investors

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we are going to do one of our back to the Basics episodes. Today we're going to talk about tools. If you are tuning in for the first time, we have been doing some back to the basics on Thursdays for the last few weeks, probably four or five weeks. And we're going to continue this. We have a series that we are going to work through. So please come back every Thursday and we'll talk about different back to the basics topics. Today's show is going to talk about tools that we use to help us become better investors.

Dave [00:00:31]:

So, Andrew, I'm going to turn it over to you and we can go ahead and get started.

Andrew [00:00:35]:

Yeah, perfect. Tools. So when we think about tools, and obviously this is for stock pickers, because if you're an index fund person, 401K person, there's not much you got to do. Set it and forget it, right? But if you're picking stocks, hopefully you're using tools and using those to leverage, trying to leverage those to increase your knowledge and your ability and your success rate. So maybe flip it over to you and ask what are some things that tools should help? Like what problems would tools solve that people should think of? Like what's one that comes off the top of your head? Oh, yeah.

Dave [00:01:13]:

That's awesome. So I think the first thing that a tool should help you is if you don't know what the business does, the tool can try to help you figure out what the business is or what it is they make or what kinds of things they do to generate revenue. I like to try to look and see what I can do to figure out what does Crowdstrike do.

Andrew [00:01:40]:

I don't know.

Dave [00:01:41]:

What does google do? I don't know. And the tools, depending on which ones you use, should help you understand what the Business does better. Bamsec, we talk about this all the time. One of our favorite websites allows you to read the ten k of every company. And they have, all companies have their business section in there where they'll explain, you know, what it is that Markel does. But sometimes the companies may be a little more obscure or maybe a little more abstract about how they're explaining things. And so sometimes I need like that, you know, explain it to me like I'm a five year old kind of idea. And so then I usually will try to use something like Google Search to try to help me determine maybe a better understanding of what a company like Markel does, or Nova Nordisk, for example, really understanding what it is.

Dave [00:02:30]:

The diabetic medication that theyre making and how it works. Maybe I dont need to know the in depth science, but I at least need to understand what it is, how it helps people. And I think that, to me, is the big thing a tool should be able to do. What are your thoughts?

Andrew [00:02:44]:

Yeah, learning how a company does what it does is not always easy. You mentioned some really good examples. When I think of some of the stocks in my portfolio, I am aware of them and I'm familiar with them intimately. Not even so much from something I read, but more so because I'm a customer. I know Apple because I've had an iPhone for years. I know Starbucks because I've been there many, many times. Other examples like maybe Visa. I had to learn from your blog posts and actually several of your blog posts, which are very, very helpful.

Andrew [00:03:22]:

So it is hard to kind of have a tool to encompass all of that.

Dave [00:03:26]:

Yeah, it really is. I have in the past, Google search has been very helpful. Finchat IO is a newer tool to us. They have an AI that can give you some insights into some of the different things of how a company can work. It may not be super specific, but it can at least give you an overview. If you ask it, what does this company do? It'll give you kind of an overview and then you can kind of go from there and trying to decide how much you want to break that down based on what you feel like you need to know about that company.

Andrew [00:03:56]:

Yeah, I don't know how, like to fact check things. I don't know how you do that. Unless you, like you said at the beginning, use something like Bamsec, where you're pulling up the SEC filing, you're looking at their annual report and you're seeing what does the management say? And then using that to kind of fact check, for lack of better word. I was watching a video on YouTube that popped up the other day. They were talking about Starbucks and how they generate revenues. Like a lot of people are saying this, they're like a bank. They have all this gift card liability and that. They use it as a float and all of this.

Andrew [00:04:36]:

And it's like, yeah, but a lot of the videos are kind of making it sound like that's how they make their money. But you have to fact check. And you go to the annual report and you realize, okay, sure, that makes a little bit of money off this, but that's not the same as how much money they make from their drinks on their restaurants. It's not even close. So you kind of have to fact check ideas, and I think the annual report's really the best place to go for that.

Dave [00:05:03]:

Yep, I totally agree. And kind of the way that I try to use some of these alternative methods, if you will, is to give me a visual in my head that I can go, okay, I think this is how this works, so that when I go to read the ten k, it can confirm to me, okay, yeah, this is the way they make money. Or sometimes it can be like, okay, that was wrong. This is actually the way it does it. Or it can sometimes just kind of give me a better idea of what it is that crowdstrike actually does, like, how their product actually works, because in their circumstance, unfortunately, it's not something I use. And so I don't really understand it. To your point, I can go to Walmart and buy groceries. I can go to Nike and I can buy shoes.

Dave [00:05:47]:

I can, you know, go online and use shopify service to listen to podcasts or music. It's easy to understand those things. But sometimes when you're trying to maybe broaden your horizons or expand your. Your circle of competence, then it can be a bit more of a challenge. Especially when I was looking at Nova Nordisk a while back, I just didn't really understand what a semi glutide meant. And what does this really mean? And so that, you know, kind of going to Google was very helpful to really kind of understand. Okay, I understand. Maybe not necessarily the science, but at least how this can help people and maybe why that would be attractive.

Andrew [00:06:26]:

Yeah. To kind of close the loop, too. Sometimes the numbers itself can help you understand the business model, and sometimes it'll jump off the page, and sometimes it's a little more. You stumble upon it. So you mentioned Finchat's a great place to kind of visualize financial data. Another one that's free also is quickfs.net. And I remember, I can't remember which one I was using, but I was looking at the numbers through those platforms, and just the way it's laid out, it clearly showed how, for American Express, for example, their SGNA and their SGNA and their processing revenues, the transaction processing revenues.

Dave [00:07:11]:

Right.

Andrew [00:07:11]:

Are, like, lined up year after year after year. And so that helps you understand American Express's business model. Like, okay, this is a credit card company. They're using the transaction fees to pay all the great membership rewards. So it wasn't SG and a. It was membership rewards. But to see it, like, line up like that year after year after year, you can kind of get insight into, oh, this is why everything that everybody's saying about American Express is moat makes sense and plays out in the financials shows why they have industry leading credit card rewards as an example. So that, you know, sometimes the numbers can help you understand, not just like, oh, do they sell pizza? But also like, why is this company better than somebody else?

Dave [00:07:55]:

Right. And that's important. I mean, understanding those, the context of all that, Professor Demoder talks a lot about numbers and story. And the way I kind of liken it is a little bit like Sherlock Holmes. We got to look at the numbers to help tell the story of what's really going on with the company. And you kind of have to use both, you know, the narrative as well as the numbers to help you kind of meld. Okay, this is really what's going on with the company. And not only performance wise, but to your point, it can also help you decipher, okay, now I get the moat because you can see in the numbers that it makes sense that, okay, you know, this is why this company is so strong.

Dave [00:08:34]:

Berkshire Hathaway is why it's know, a beast in the insurance industry. When you look at the premiums they write and, you know, the underwriting discipline that they have that really sets them, you know, above a lot of other companies. And so you start to get a sense of, oh, okay, now I get why this is such a beast financially.

Andrew [00:08:54]:

Yeah, some of the numbers just are like mind boggling, right?

Dave [00:08:58]:

Oh, yes, yes, yes, for sure. You know, sometimes you kind of lose sight of it because you get so used to it, is looking at numbers that are all in the millions and then you come across a company that actually is a lot smaller and it reports everything in thousands. And so youre sitting there to yourself thinking, wow, they dont make very much if youre trying to compare it to a bigger company. And oh, yeah, I got to remember to scale down the numbers so that I understand how is this company such a small market cap, but theyre producing the same amount of revenue as this company? That doesnt make sense because youre not interpreting the transition or not transition, but like the adaption of, okay, this is in millions, this is in thousands, which.

Andrew [00:09:40]:

I guess is another selling point for something like quick fs or a lot of times they take care of that for you or make it very clear when one is millions or thousands scale.

Dave [00:09:52]:

Yeah, for sure.

Andrew [00:09:54]:

Any others kind of along that line as far as like presenting the financial data in a clean and easy to digest way?

Dave [00:10:04]:

Those are really the three that I use the most quarter their web app does provide some of that information, but probably not to the same level of detail that a finch had. Quick fs or even just going to Bamsec or SEC dot gov Dot. Any of those four are going to give you very clear information, financial wise, as well as the story. And so those are, tend to be the four that I use the most is, you know, between Bamsec, quick fs, Finchet IO and sec. Those tend to be the ones that I use the most. What about you?

Andrew [00:10:40]:

Nah. Yeah, perfect. I don't have anything to add there.

Dave [00:10:43]:

Right. I mean, there are lots of other great platforms out there. Those are just the ones that we have, you know, have found that work the best for us.

Andrew [00:10:50]:

Yeah. At this point, become like an old dog. Right, right. Another software.

Dave [00:10:55]:

Right.

Andrew [00:10:57]:

It better be like, demonstrably better.

Dave [00:10:59]:

Right, exactly.

Andrew [00:11:00]:

I'll have the time. Sorry.

Dave [00:11:01]:

Right, exactly.

Andrew [00:11:02]:

Yeah. So maybe we can step back a bit. We talked about, like, all right, you have a stock that looks promising. Here's how to analyze it. Here's how to learn about it. Kind of take those first steps in analysis. How about the process of, like, even finding interesting ideas?

Dave [00:11:20]:

Yeah.

Andrew [00:11:20]:

You know, what kind of tools can investors use there?

Dave [00:11:23]:

There's a few that kind of stick out. Number one, and this is very low key. Low tech, is to just look around yourself, look at, go to the grocery store and walk through the aisles and look at the different companies that are being represented there by the products that they're selling on those shelves. So not only inside a Walmart, you have Procter and gamble and you have Kellogg's and you have Campbell soup, you know, just to name a few, Tyson Chicken. I mean, there's just endless kinds of different companies that are represented inside the grocery store. So maybe grocery stores aren't your thing. Like, I don't really want to invest in those. But maybe you love chicken then, or seafood.

Dave [00:12:07]:

Then you can go to those aisles and just take a look at the bags and see who makes the stuff that you buy on a regular basis. And so that's a low key one to do it. One of the things I've seen is, you know, you're driving, you see trucks drive by that represent different brands, and that can spark an idea. Or you're at the gas station and you think about the gas station. So there's, the signs are all around us. There's lots of opportunity just in that low tech way to do it. Think about where you work. If you don't already have a 401K with your employer, but you really love what they do.

Dave [00:12:42]:

And, you know, why not look at them as a potential to invest or your spouse or your significant other. They work at a particular company. You could always look at that stuff. So those to me, are, I guess, trying to just observe the world around you that can provide some potential ideas. And then I think the next big one is, you know, one of our favorites, which is finfiz.com dot. And that screener has probably stood the test of time is like one of the, probably the tool that I've used the longest consistently. For those unfamiliar, it's spelled Finviz.com and it's a free website that you can enter all kinds of financial metrics and, you know, basically sort companies by your preferences and it's super easy to use and it's awesome.

Andrew [00:13:30]:

Yeah, those are good. What else?

Dave [00:13:32]:

What else, what else would I do? Well, there's lots of great blogs and investment newsletters like Andrew's value spotlight to plumb ideas from. And I have certainly plumbed a lot of ideas from Andrews, his newsletter, and that's a great source of investment ideas. And the nice thing about using that is a lot of cases they do all the heavy lifting for you. So then it's up to you to decide whether you feel like you know enough after reading an article from one of these people, Andrew. And then you can invest and depending on what level of effort you want to put into it or how much time you have to spend, it can be a very big time saver. And so that's a great way to try to find other investment ideas. There's also social media, Twitter is, you know, fintwit is abound with investment ideas. There can be some themes, Nvidia that can dominate for a long time.

Dave [00:14:34]:

Nvidia. But I think beyond that, you can find some interesting companies and interesting ideas just kind of scrolling through, you know, doing the old doom scroll. You can find some interesting things that way.

Andrew [00:14:47]:

That's funny. So you can use like substack, right, to find news. Is there a better way to find them or is that the best way?

Dave [00:14:54]:

To me, that's probably the way I find them is actually through Twitter, because a lot of the people that I follow that I enjoy their commentary or their content, a fair amount of them have substacks and they will have those links to their specific one via their header or their profile. That's a great way to find it. You can google different people as well, of course, and that's a way to find them as well. But that's probably the easiest way that I do it is just kind of going through Twitter and looking at people's profile and, oh, they got a, you know, I found two or three of them in the last week. Like, oh, I really like their stuff. Oh, they got a substack. All right, I'll check it out. And most cases they're free.

Dave [00:15:35]:

And so that's a great opportunity to learn things. And, you know, if you eventually don't enjoy what they're creating or the choices they're offering you, you can always, you know, unsubscribe as well. So there's really no downside to doing it that way. And to me, it's a great way to try to find other ideas, maybe outside of where you would normally look.

Andrew [00:15:56]:

Do you feel like that's not like a super intuitive thing for people to think about? Like, oh, I have to come up with all these ideas myself, kind of a thing.

Dave [00:16:04]:

I think sourcing ideas is probably one of the biggest struggles. And I know on fintwit, it's definitely one of the things that resonates the most with other readers is when people either put out investment ideas or put out ideas of ways you can try to find investment ideas. Because I think everybody's always looking for, we're all looking for the next Amazon, right? That's like the holy grail of investing is like trying to find the next Amazon, you know, that you can buy for $6 and it goes to the moon. That's the holy grail. And so I think it's not intuitive that you're just not going to have a platter of ideas that you can just, I want to start investing and hey, look at all these things. Maybe surprises people a little bit that they have to look around a little bit.

Andrew [00:16:51]:

Yeah. I mean, I know for me, I think my idea flow really leveled up when I started being open to other people's ideas and thinking of it as like, I'm going to leverage these and find the good in these ideas versus feeling like I had to find all the ideas myself. There's a lot of different things in life where I think there's a lot of benefit to being DIY. When it comes to investment ideas, though. You don't get any extra investment returns, whether you got the idea from yourself or from something you saw online.

Dave [00:17:25]:

Right, exactly. I would be remiss if I did not mention that looking at other investors ideas, that is, you know, the greats, you know, the buffet's and the mungers and the Chuck Acrys and the Bill Ackman and the Peter Lynch's and on and on and on. Those can be a great source of ideas as well. Sometimes they may be companies that, you know, Buffett bought coke in 1988. I don't know that that would be like a brand new fresh idea today. But you know, there's other things in his portfolio that may be more appealing that he may not have bought. But Ted or Todd, who are his lieutenants that are going to take over for him, have bought. Those could be a source of ideas.

Dave [00:18:09]:

I know our friend Braden at Finchat has an investor section that allows you to see the portfolios of other investors. Theres also datarama.com is another source of investment ideas through they watch the great hedge fund managers and other individual investors portfolios and you can look and see a, who owns those companies and b, how many other people own those companies. And that could, sometimes that could be helpful too. So if you find a company that's a little more off the radar and you find some of these other five or six, you know, all star investors also own that company, that not necessarily as an indication, hey, go buy this. But it could be clarification that maybe this is an interesting idea. And those are some, I guess, other options that exist to give you investment ideas.

Andrew [00:19:00]:

Hey, you've been holding out on me. What's this? Data Rama. How you spell that?

Dave [00:19:03]:

Oh, I'm sorry, I thought that was common knowledge. It's dash aroma.com data Rama.

Andrew [00:19:12]:

Yeah, we'll have to check that out.

Dave [00:19:13]:

Yeah, so I discovered that from fill town a few years ago.

Andrew [00:19:18]:

Nice. Yeah, it's free or you got to pay for.

Dave [00:19:21]:

No, it's free.

Andrew [00:19:22]:

Oh, nice.

Dave [00:19:23]:

Yeah, it's free. It's awesome.

Andrew [00:19:24]:

So it's basically aggregating the proxy information from all the different companies? That's right.

Dave [00:19:30]:

Yeah, it's very cool. It shows you not only what they own, but like any sort of activity. Like, you know, hey, you know, Bill Ackman reduced his exposure to this and he, you know, added exposure to this kind of thing. Doesn't necessarily tell you how much they paid for the particular companies, but you can see kind of their activity of their portfolio, what they're buying and selling and kind of the size of the companies. So you can see kind of how much conviction they have and whatever company it is they're buying.

Andrew [00:19:59]:

Right? Yeah. That's cool.

Dave [00:20:01]:

Yeah.

Andrew [00:20:01]:

Something I've been using lately to really leverage the professional hedge fund managers and, you know, all their great letters is seeking alpha has a feature. I think it's just like an account you can follow called fun leathers. Oh, I'll have to look it up, and maybe I can message it to you can put in the show notes. But basically, you know, all the, every big manager who people follow the letters of, and they tend to read it every year it gets thrown in this feed, and then you can subscribe to updates and get an email to you. So just recently I've read stuff. The guy from Giverny Capital, he was on there.

Dave [00:20:43]:

Francis Roshan.

Andrew [00:20:45]:

Yep. Oakmark fund was on there. A lot of just really big, really smart investors. I have a lot of good thoughts on the market now. Right. And, like, what positions theyre holding now and what theyre thinking of doing with those positions. So thats like a newer treasure trove that ive found that the only problem is theres so many that you cant keep up with all of them. I dont know if thats because its earlier in the year, maybe some of that starts to slow down.

Andrew [00:21:13]:

But another place I think you can look and start that, build that seed. Right. Find that seed of an idea that you can explore yourself.

Dave [00:21:21]:

Yeah. That's awesome. Yeah. Please send me the link because I can put that in the show notes. That's, I think, worth exploring.

Andrew [00:21:27]:

Okay. I don't know. Yeah. Right. I don't know if seeking Alpha is still free. I would assume that they should be. Like, you can open an account for free. That's a premium model.

Andrew [00:21:39]:

Right.

Dave [00:21:39]:

So, yeah, to my knowledge, it's if you want to read, like, in depth research that others have written, then I think that is behind a paywall. But if you want, if it's just more generality stuff, then that stuff is kind of open. Like, they have the same charts that Finch had, does, for example. But it's like, fewer years to look at and things of that nature. So there is some stuff that's behind a paywall, but that probably is something that's free.

Andrew [00:22:07]:

Would you put seeking Alpha kind of similar to the whole substack thing or not quite?

Dave [00:22:12]:

Yes and no. Yes. I would say that the research available there and the sourcing ideas, I think would be awesome. I guess the biggest difference is that in a lot of cases, it's behind a paywall to read what so and so is writing about Markel, for example. Whereas with substack, you may not be able to find the point. Counterpoint is that more of substack is free. But the downside is it may be harder to find information about a company you're looking at if it's not as either well known or more off the radar. Like if you're looking at smaller cap companies, it may be harder to find information on substack than it is on seeking alpha.

Andrew [00:22:57]:

Really? I would think that there would be more of those because it depends on more of like a hidden value or something.

Dave [00:23:06]:

Yeah, it depends a little bit on the, I have found that the search function on substack, not a dis, but just my experience is not as robust. And so if you are searching for, perfect example, if you're searching for new bank holdings, which is the brazilian bank, if you're searching for that, a lot of times you will find five or six first things that pop up have nothing to do with what you're wanting to find.

Andrew [00:23:36]:

Oh, like not stock research or anything.

Dave [00:23:38]:

It has something to do with completely unrelated. And so sometimes you have, it's a little bit of a needle on the haystack to try to find, you know, if you type in Microsoft or Google, yeah, you can find a ton. But if you try to find maybe more obscure ish type companies, I'm not saying that Nubank is obscure. It's not in the common lexicon of most investors. So if you're looking for something like that, it's a little more of a needle in the haystack. Whereas seeking alpha, you can go, so type in new and then anything that anybody's written about it all pops up right there for you. So, you know, it just kind of depends.

Andrew [00:24:12]:

Okay, interesting. Do you use the search function on Twitter?

Dave [00:24:15]:

I do a trick with that is you have to type in the dollar sign of the company and then you also have to put the ticker symbol in capital letters. And if you do that, then I have found that you find more information related to the company and so you can see what other people are saying about that particular company. Again, it goes back to how, how popular the company is on the particular social media. I'll give you a company, for example, one that I don't own yet, but I do like it a lot and I've read a lot about it and written about it. Some is Jack Henry. And if you go to, you know, if you type in the dollar sign JKhy and search, something I wrote probably six months ago is going to be like the second or third thing that pops up because it's kind of a ghost town. So it doesn't get a lot of love in social media. So that can be, its a resource you can use for sure.

Dave [00:25:12]:

But just kind of keep in mind, if youre looking for a company that doesnt get a lot of love, for example, Globe Life, which is a company that Buffett has owned for 20 some years. If you go and type in dollar sign capital

GL as crickets, its an insurance company and nobody is talking about it and you wont. I think I wrote an article about it on seeking Alpha a few years ago and its still in the top three or four of like when you search for that company just because it doesn't get a lot of attention.

Andrew [00:25:45]:

So it's not just the Wall street analysts who are guilty of abandoning companies.

Dave [00:25:51]:

It'S the retail investor as well, right?

Andrew [00:25:54]:

Retail investor as well, yeah, exactly.

Dave [00:25:57]:

You know, if you're investing in like micro cap and small cap, both of those resources, whether it's seeking Alpha or substack, can be a bit of a challenge just because there's not a lot of coverage and so they don't get any analyst coverage. And if it's not a well followed stock in social media or other avenues, you may struggle to find somebody else writing about it just because it just doesn't, it just flies so much under the radar.

Andrew [00:26:26]:

So maybe that's a good example then, like new bank, if you were in a spot where you couldn't find information about it, how do you learn about the company and analyze it?

Dave [00:26:35]:

Then I circle back to what we started with at the very beginning and try to use a combination of, you know, Google and financial statements from the company itself and try to learn as much as I can. New bank, you know, there's a bit of a cheat code because one of the former investor relations officers that helped Nubank go public is very active on Twitter. And so he's a great resource to ask questions and just read his content, just in general. And he talks a lot about the company and so you can learn a lot just by following him. So that can be another way that you can try to, you know, if you can find an analyst or if you can find somebody on social media, it doesn't have to be Twitter. That just happens to be where I spend more of my time. And so that can, I think could be really helpful too.

Andrew [00:27:26]:

Yeah, you've been like dragging me into Twitter kicking and screaming, right? No. One of the things I like to do on there is when you do the search, like you said, with the ticker, the dollar sign and then all caps, I like to filter it with like, people you follow. And so for me, that like cuts 98% of the garbage that shows up when you type in like ticker, visa or something.

Dave [00:27:53]:

Because there's a lot of trading that a lot of people posting about trading, which, okay, fine. But yeah, it can sometimes cloud what you're trying to look for.

Andrew [00:28:05]:

Cool. Any other thoughts on the investment idea process before we move on to the last little section?

Dave [00:28:15]:

No, I think that pretty much exhausts kind of how at least I try to source ideas when I'm thinking about what I want to buy next.

Andrew [00:28:23]:

Perfect. Yep, me too. So I guess the last thing is, are there tools that you're aware of that help you kind of close the door on your analysis? Maybe you're buttoning up, putting the finishing touches, or maybe you're trying to do like, really in depth evaluation work or anything like that. Any tools that you feel are worth sharing about that part?

Dave [00:28:48]:

Well, I would probably be remiss if I didn't mention, you gotta, you know, if you want to do some of that stuff, Excel is your friend and you don't have to necessarily be a ninja. I am certainly not. Andrew is probably way more of a ninja than I am. But I think with just some simple understanding of how some of the formulas can work and some of the things that you can do with that, it can go a long, long ways towards you understanding some of the connections with the ratios and the financial statements and whatnot. Andrew and I have built a product called the little package evaluation that I need to mention. And that is a great way to encompasses tools that can help you start to value a company, from dcfs to equity models to ROIC to WAC or discount rates. And it can really help you go a long ways towards starting to value a company. And that's probably arguably one of the more important parts.

Dave [00:29:46]:

But generally it gets done last. But that's very important part of the process is trying to determine, okay, I found this awesome company. Now, what price do I buy it at? Because sometimes it may slap you in the face now, but unfortunately, there are going to be times too where it's like, okay, you're going to have to wait. And without doing some of that work to figure that out, you may buy a company when it's not ready to be bought. It's not fully formed, it's not done. Bacon. So using something like the little package evaluation, using Excel spreadsheets, those are, I think, the ways that I do try to put that, like you said, definition touches on once I know the company.

Andrew [00:30:26]:

Once I, yeah, I use that like, if not every day, over and over and over again throughout the week. If I want to get a more accurate read on a company's Roic, and I want to adjust for cash and things like that. If I want to figure out if you are ninja, you can start to automate some of that stuff, and then you kind of dig in after, and that can save a lot of time. That helps me with the screening process. But yeah, my spreadsheets turned into this, like, green headed blob monster that just keeps adding pieces to it and more gets added than gets, gets deleted. But, yeah, Excel is totally your friend there, and I don't know of anything else other than the little package that has that. So that's just what I use all the time. And so if somebody were to ask me, what would you do? That's what I would do.

Andrew [00:31:16]:

And, you know, you can make it into your own little green, little monster, right?

Dave [00:31:20]:

Yeah, I like, I have, I've done the same thing. You know, you come across different companies that have different situations or scenarios, so you need to adapt what you've built. That may work great for Walmart, but it doesn't work so great for, you know, brown and brown or something, you know, something a little more not obscure, but just different. And so sometimes you got to do some adjustments here or there to make it fit the business model.

Andrew [00:31:45]:

Actually, I did think of another one, which we've used. So Domidorn on his website.

Dave [00:31:50]:

Oh, yeah.

Andrew [00:31:50]:

I don't know if he still offers those. He has some free spreadsheets you can use, I would argue maybe even a little more hairy than the ones I use. Definitely a learning curve. So if you want something simpler, hopefully a little package can help you. But what would be, maybe somebody's listening to this in the future. Maybe they're familiar with other tools that we're not familiar with. What would be the basic foundation of a spreadsheet that you would want to be able to feel good that, okay, this is telling me a good approximation of how much a stock's worth, right?

Dave [00:32:26]:

Well, I think probably, or to me, the basis would be using some sort of discounted cash flow model to give you an idea of how much is this cash flow worth in the future. Thats really what valuation boils down to, is trying to figure out, okay, how much is this worth today, and how much will it be worth five years from now? And you can have a model that can go five years, ten years. Ive seen 50 year models. Thats a little nuts to me. But, you know, I think at the minimum, you should do five years. I've heard some people talk about seven years. I've heard some people talk about ten, but the bottom line is if you can use a spreadsheet to give you an approximation of what this value is worth today, and compared to the, you know, five years, ten years from now, that'll go a long ways towards you determining if you're in a ballpark on how much this company is worth. I should mention that whenever you're doing this kind of work, precision is not necessarily.

Dave [00:33:29]:

I wouldn't say it's not required. Don't get lost in the weeds of precision and lose the forest. If you come up with a value of Netflix and let's say that it's trading at $150 and you come up with a value of 156.27, don't get to, you know, oh, it's like $6.27. No, it's really more about trying to find a range. 1015 percent either way can get you in the ballpark. If you're coming up with values that are 100% high and 50% low, that may be a little too broad, but you want to try to come within a range, and that can give you a lot more clarity on where the company is and how much it's really worth. But don't, please don't get lost in a minutiae of being precise, because our friends Charlie and Warren like to say, what is it better to be precisely wrong than. No, I'm butchering that.

Andrew [00:34:28]:

Better to be approximately right.

Dave [00:34:30]:

Thank you.

Andrew [00:34:31]:

Than precisely wrong. Yep.

Dave [00:34:32]:

Thank you. Thank you. That's really what you need to live by when you're thinking about these models.

Andrew [00:34:38]:

For sure. Any other hiccups that somebody who's new to these models might have or big mistakes they might make, I think probably.

Dave [00:34:48]:

The two things that can lead you astray. Number one is growth rates for a company, whether it's revenue or whether it's free cash flow. Try to be as realistic as you possibly can. I understand what it's like to drink the Kool Aid and get super excited about a company. We have to live in reality land and not, you know, alternative reality land. And so try really hard to, you know, if a company has never, in the history of their existence, had a 35% growth rate and that's what you apply to it for the next ten years, you might be missing the point. So it's probably better to try to think about. There's a lot of different ways, and I've written about it on the blog post.

Dave [00:35:34]:

So is Andrew, that you can estimate what you think an approximation is going to be for revenue growth rate. The other one is going to be kind of the long term growth rate or the terminal growth rate of the company. And you have to also put that into consideration, because a large part of the value of a company, when you do a DCF is going to come from the terminal value of the business. And if you set that growth rate at higher than the GDP that the company operates in, so if you set it at 7% in the United States, in ten years, that company's terminal growth rate is going to be bigger than the GDP of the United States. And that's not realistic. And likewise, if you do the same thing in Brazil and you set the growth rate at 9%, and their GDP growth rate is two, it's not realistic. So you have to kind of temper those enthusiasm. And I think if you do those two things, it probably can help you get closer to it again.

Dave [00:36:32]:

It's never going to be precise, and it's never going to be 100%. Right.

Andrew [00:36:36]:

Yeah, that's perfect. What did you say before? I think you said on the previous episode, like, if a company continues to grow faster than the GDP, at a certain point, you buy everything from. The entire world would buy from them.

Dave [00:36:48]:

Yeah, we'd buy everything from them, from car insurance to toothpaste to underwear to, you know, baby formula to our food. I mean, everything would have to come from Tesla.

Andrew [00:37:00]:

Yeah.

Dave [00:37:00]:

So unlikely. Maybe a thousand years from now, maybe, but, yeah, the next ten years, unlikely.

Andrew [00:37:08]:

Cool. That's really, really awesome. Maybe just rapid fire. Give me all the tools we discussed about today and a quick one to two second synopsis of what that tool does. Okay.

Dave [00:37:21]:

All right, so first one would be Bamsec. And this is where you can find financial data and ten ks, ten queues, all the financial information the company gives us. Number one. Number two would be Finchat IO. This is a, I guess, an investment screener slash financial website. They're an aggregator that basically takes all the numbers from the ten ks and puts it in digital form. So you can see all that. You can sort by margins, ratios, metrics, all kinds of great stuff.

Dave [00:37:50]:

Then the other one would be quick fs, which does the same things that Finchat does and just a different format. And so it's very easy to scan and it's very quick to use. So that's another one. We also talked about a little package evaluation, which is a package that we put together that Andrew and I use to build dcfs as well as ROIC models and discount models and equity models. And it's a great way to value companies. And then

I think the last one I talked. Well, the last few I talked about were, uh, Finbiz.com, and then also data Rama and then Twitter and substack and seeking Alpha. Sorry.

Dave [00:38:29]:

All those are great places to source ideas if you're looking for investment ideas.

Andrew [00:38:33]:

Perfect.

Dave [00:38:34]:

Cover them up.

Andrew [00:38:35]:

Yeah. If all else fails, just Google it, dude. Right?

Dave [00:38:38]:

Yeah, just Google it. Google is your friend.

Andrew [00:38:41]:

There you go. All right.

Dave [00:38:43]:

Well, with that, we will go ahead and wrap up today's episode of back to the basics. Hope you guys learned a thing or two and found a tool or two that can help you become a better investor. I will put the links to all of those particular tools that we mentioned in the show notes so that you can have one place that you can go search for all those at your convenience. So with that, we'll go ahead and wrap us up. You guys go out there and invest with a margin of safety. Emphasis on the safety. Have a great week, and we'll talk to you all next week.

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