IFB350: Investing Abroad - Understanding TSMC, Geopolitical Risks, and Foreign Companies

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have episode 350. Today we are going to talk about three great listener questions, and if you have any questions you're dying to share with us, please send them to newsletter investingforbeginners.com. you can also do them on Spotify, and you can also send them to us at Twitter podcast. So with that, let's go ahead and dive on in. So this is from Brian. TSMC or Taiwan semiconductor is headquartered in Taiwan and I believe is traded on the NYSE or New York Stock Exchange. What do I need to be aware of if I'm looking to invest in a company outside of the US? Thank you.

Dave [00:00:40]:

Great question. We both own it, so this is appropriate for us to answer. What are your thoughts?

Andrew [00:00:45]:

Yep. Thanks, Brian, for writing in. This is a very good question for every company. I would say it's probably a little bit different in the case of TSMC, as case of a lot of them, you don't actually own an ownership stake in the company. You own what's called an ADR, which is like a claim to an ownership stake in the company. And so you always have risk. You know, we've lived in a period of a lot of prosperity and peace in a lot of the developed world, but there have been times, even in RuSsia recently, where foreign assets were nationalized. So if you have an ADR and a country in there decides to nationalize, you don't have anything anymore.

Andrew [00:01:27]:

So that's a risk to understand. That's a risk for TSMC. TheRe's a geopolitical risk with TSMC. TheRe's also earthquake risks with TSMC. So there are definitely risks. And I would say it probably differs with every

country, and it also differs in severity depending on what country you're talking about. ThAt's kind of how I would look at it. How about you, dave?

Dave [00:01:49]:

I take those ideas and thoughts into consideration as well. Those are all great things to consider. Other things that I kind of think about, number one is maybe more technical, is that they do not report the same way we do. So their accounting standards are a little different than ours are. So we have these gap accounting rules that are managed by a government agency that makes sure that for the most part, american companies, when they report any sort of financial data, that it's has a similar structure. Some of the terminology may be different, but revenue is revenue, earnings or earnings and so on. Not to say that it isn't like that outside of the United States, but because they don't have the same standardization that we do. There can be some oddities or discrepancies sometimes when you're reading through financials or maybe the structure is different.

Dave [00:02:46]:

And so those are things you kind of have to keep in mind. I'm not saying it's good or bad. It's just different. And so you have to be aware of it. When you read TSMCs financial statements versus Microsofts, theyre just different. And so you have to kind of understand that a little bit. The other thing that I try to take into consideration is trying to, I guess, interpret or incorporate the idea of youre investing in a different culture. So the way people think about money, business work is different in Taiwan than it is in the United States.

Dave [00:03:19]:

And likewise, if Im investing in Brazil, I have to be cognizant of the way that they do things in Brazil, albeit very slow, having been there, very slow, that it's just different. And so you have to understand that. And so when you listen to earnings calls, when you try to interpret results or what management is telling you, it's not always being presented in the same way that we may present something, so they may say something or write something that you may find like what? But if you understand the differences in the culture, that can sometimes help explain, I guess, the communication gap, if you will. And so those are things that you have to kind of account for politically, every country can be a little different, and so you have to take that into consideration. Andrew was talking about ADr's. That's certainly a risk when you invest in China, is that because of the way the country is run, they could easily just come in and take over the company and you have no recourse. The same thing could happen in other places if you're buying through the ADR's or not buying the actual stock in the country that youre investing in. So theres always going to be risks.

Dave [00:04:29]:

And those are things that you have to take into consideration when you think, okay, this is fairly valued. For example, if Im looking at Nubank in Brazil, if I look at the numbers, its fairly valued. But then I have to take into account the cultural differences as well as the political risk of the situation in the politics in Brazil is different than it is here. And so you have to kind of sometimes have to count for that. You might have to apply a bigger risk premium, if you will. And maybe the margin of safety you're looking at is maybe 10%. And maybe in a foreign country, you may want a bigger one just to account for some of those differences. So those are some of the things that I kind of try to look at as well.

Andrew [00:05:07]:
Do you do a siesta risk or is that part of the.

Dave [00:05:12]:
Only in Italy. Okay, only in Italy. No. But, you know, I do think that something you do have to take into consideration does impact how they do business. You know, the two and a half hour lunch break that they take, including taking a nap after a heavy meal of pasta and red wine, it definitely impacts how long people work. And, you know, in Italy, for example, the Italians work to live, whereas Americans live to work. It's a different mindset, and you have to keep that in consideration. So what drives us in America doesn't necessarily drive an Italian.

Dave [00:05:47]:
Right. So. And you have to consider that when you're investing in another country, for sure. All right, so let's move on to the next question. So we got. Hi, chaps. I love that. Thanks for your amazing podcast.

Dave [00:05:57]:
As a new investor, I have hoovered up so much of your knowledge, and I'm really grateful that you've been chosen to share it. My career has been spent in market and competitive intelligence, so analyzing companies is my bread and butter, an english phrase which I hopes translate. It does. Therefore, stock picking really appeals as it gives me a chance to utilize the skills I have learned over the past 20 years. My question is, I have an ion of a couple of companies that I'm thinking of investing in. Both who have a P E ratio north of 21, is well known Palantir and the other less so. In the case of palantir, their P E ratio is greater than 220, which I've learned is a massive. Their share price currently sits at $22, which feels like there could be some room for growth based on my research and knowledge of the market they operate in.

Dave [00:06:43]:

So if I pull the trigger at $22 and the price goes up, then I'm still at a disadvantage because I bought at a high pe. Or does a high p e simply mean that there is more risk as some of the growth has already been factored into the price? Many thanks and keep up with the good work. Chris, fantastic question. Chris. Andrew, what are your thoughts?

Andrew [00:07:02]:

I love this question. I love the way kind of been framed. Are you at a disadvantage when you buy at a high pe? Yes, until it works, right? So I think quantifying it as does a high pe, simply mean that theres a bit more risk as some of that growth has already been factored in. I think that kind of hits the nail on the head that really, if I were to contrast, like how I try those pick stocks, which is not the perfect way. Versus how maybe somebody else might try. That sums it up as I want more of a margin of safety and lower risk for the results I'm getting. Other people might have a higher risk appetite, and maybe it's probably more than a bit more. I think that's maybe understating it, but it all depends on what pe you're talking about, what company you're talking about, and going to the competitive analysis, you know, are we talking about company that has a monopoly, or are we talking about company that could have somebody come in and take their lunch in three years?

Dave [00:08:05]:

That all plays a part, right? Yeah, it certainly does. And it's interesting that he brought up Palantir, because maybe aside from Tesla, there's probably not much more of a company that is divisive on social media than Palantir. People love it, hate it, and there's not a lot of in between. And it very much, you know, in part because of the people involved running the company, in part because they work with the us military. So that causes a lot of anxiety. And based on what Chris was saying, it's trading at a very elevated P E ratio. And I guess my take on it would be, I'm going to also mention, I do own this company. I bought it just kind of as a joke almost a year ago, and I'm back to break even on the company.

Dave [00:08:57]:

And I'm like, I'll just hold onto it because what the heck? But it's a very small portion of my portfolio, so it's nothing to get too excited about. But the one thing that I would say about it, well, there's two things. Number one is if you buy a really elevated ratio, there's a couple of ways you can look at it. Number one is kind of Andrew's point. It could be awesome. Why it works, but until it doesn't, and then you're going to be in a world of hurt. And because if it re rates, if the multiple comes down drastically, that means that the price has fallen a crap ton and the earnings haven't grown much. And so that's a really bad place to be as an investor.

Dave [00:09:36]:

The flip side of that is that sometimes companies can grow into their valuation. That is, if they grow fast enough. Either the revenues and the profitability of the company. The two big knocks on Palantir have been, number one, they been borderline profitable for a while, so that always gets people anxious. And number two, they've issued a lot of stock based compensation. And when I mean a lot, it's egregious, I'm not going to lie. It's a lot. And so that is not great for shareholders down the road.

Dave [00:10:08]:

So having said all that, depending on how the company is executing, if the price stays relatively stable and the company, you know, continues to grow their earnings at a fairly rapid clip, we're saying, we're talking 20, 30%. If that happens, then the company can grow into the PE ratio because as one stays level and the bottom one comes up, then the company can become, maybe it's not a 220 pe, maybe now it's a 40 pe kind of thing, which is still high. But for a company like Palantir that's growing really quickly, then that may not be outrageous. The problem with these kind of stocks, like a palantir, is that any sort of positivity is going to send the bulls running to buy, just stock up, and it's going to bid up the price. And so the hard part about that is that what I'm talking about can take a really long time to either come to fruition or because it's just so volatile because of the bare bull pull on the company, it can just be a really hard company to invest in unless you got a strong stomach. So that's kind of how I would look at these ideas. With the high p rate, P E ratio, it can be positive and it could be negative. It just kind of depends on how strong your stomach is and how long a time horizon you got.

Andrew [00:11:25]:

What do you like about palantir? Like, what intrigued you about it?

Dave [00:11:28]:

I think the tech that they were putting out there, I watched, you know, it was very low grade investment quality research here. I literally watched like two or three videos on YouTube and saw how amazing the tech was that they were creating. And listening to some analysts talk about it, as well as experts that would use the technology and what kind of applications it could potentially have. Sounded pretty amazing and just the things that they could do. During COVID I remember seeing a video and they were talking about how they could predict with using their AI. Before AI was a buzzword, they could use their AI to predict the growth of outbreak in different parts of the country and where they could see it increase and where they could see it decrease. And that could help the government allocate resources to potential upcoming hotspots as opposed to reacting in hindsight. And to me, that was like, huh, that's kind of fascinating.

Dave [00:12:28]:

You know, so they were talking about that particular use case, but then they're talking about that with the military and, you know, financial allocation of the government and things like that. So it's just all that stuff was like, okay, yeah, that could be awesome.

Andrew [00:12:39]:

Has it increased your appetite to try another joke like this sometime in the future? No.

Dave [00:12:45]:

No.

Andrew [00:12:45]:

Because even a little bit?

Dave [00:12:46]:

Not even a little bit? No. Just because it's been down. It was down for, I think I've owned it for a year and a half, if not longer. And it was down for probably up until a few months ago. So, you know, it was a negative holding and it was just like, do I sell it? Do I not sell it? Do I sell it, do I not sell it? I'm like, I'm spending too much time thinking about this. I shouldn't be thinking about this. I got other things that are real investments. Not that palantir is not a real investment, but something I actually put some work into.

Andrew [00:13:12]:

Yeah, yeah, for sure. Any other thoughts around kind of high p e ratio? Just in general?

Dave [00:13:17]:

Buyer beware. In all seriousness, buyer beware. You get what you pay for. You know, price does not always equal value and you, there is no company that is worth an infinite price and so everything has value. And so you need to figure out what that is and be in a ballpark, otherwise you're going to get burned because if you just pay whatever, just because it doesn't work that way, if it did, then there would be a hell of a lot more people doing it that way, and there aren't. So I think that, to me that really tells the story is like how many super famous air quote growth investors have stayed in the market for the last 20 years, 30 years, 40 years? Not a lot.

Andrew [00:14:02]:

Yeah.

Dave [00:14:03]:

So that's, that's my point.

Andrew [00:14:06]:

Yeah. Really, really, really great points. I'd start pounding the table if my microphone wasn't on it. So there's a lot of truth in that. Yeah, very, very true.

Dave [00:14:17]:

Yeah. So buyer beware. All right, so last question. So we got. This is going to be a little bit of an extended conversation. So who of the big three? That is Google, Microsoft? Amazon is the best cloud potential investment. So what are your thoughts? So throw it to you first and then well, kind of go from there.

Andrew [00:14:36]:

Let me know and. And then I can put all my money into it.

Dave [00:14:41]:

Well, maybe a better way of asking it. Do you think any of those big three is going to be the big winner?

Andrew [00:14:48]:

Yeah, I think it's really hard. We were kind of talking a little bit, just offhand about this and it reminds me of oil and maybe that's not like the best comparison, but computing power is pretty much a commodity. Like if I'm a, as long as I'm getting the computer computing power that I want, you know, if I'm an AI startup or something, as long as you're giving me that and it's convenient and I'm not being ridiculously overcharged compared to what everybody else is paying somewhere else, what is the difference between aws and Azure? And, you know, there's going to be people who understand the tech way better than I do, and people are going to have their favorites. But until it's clear that this one is way better than the other, then it's hard for me to imagine a future where they're not both near the top. I can't tell which one is going to be. So I bought the one with the better margin of safety that I perceived to have a better margin of safety, but it could have been Amazon or Microsoft if the price was right. This was how I looked at it, because I don't see a clear winner. Do you?

Dave [00:16:02]:

No, I don't. And I think there's a couple things probably need to think about. Number one is I still feel like we're way early innings in this, and there is a long, long ways to go before the cloud is saturated. Not only just in the ability to cover the whole world between data centers and all the things that the infrastructure part of it. Just think about the businesses that still have not migrated to the cloud banks. Majority of the banks have not migrated to the cloud. My understanding is Walmart is still using DOS to run their supply system in their warehouses. If that's true, or even if they're on Windows 95 at this point, that's still a way behind having any of that on the cloud.

Dave [00:16:52]:

So I just think when you think about, you think about all the mom and pop businesses. You know, I live in Wilmington, North Carolina. It's not a huge city, but there's a lot of small businesses around me that probably have nothing to do with the cloud and could probably benefit from it. And they're not on it yet. I just think that there's a long, long, long ways to go before this is saturated. So there's that piece of it, and then the other piece of it, to your point, is that all three of them are performing fairly well. I mean, Google is predicting that they're going to have $100 billion run rate on Google cloud by 2030. That's, that's huge.

Dave [00:17:32]:

And those are big boy numbers. And Amazon and Microsoft are going to be there probably sooner. And those are big boy numbers. And I have not heard in my limited exposure to the cloud that there's any one of them and is superior. You know, that is infinitely superior, technology wise, than any of the other two, that there are some differences, but it's nothing so glaring that this is clearly the best and the other two are not, or these two are the best and this one is not. It seems like they're fairly. You know, the. All three horses are fairly well trained and.

Dave [00:18:11]:

And in shape to run the race. So I think between being in early innings and all three of them being fairly close, I think it's really hard to pick a winner. And so you could either go the route of choosing one of the three, all three, two of the three. And I don't think you would lose, at least in the next 510 years by doing that. So. So there's that. But then, you know, there's always the whole, you know, Andrew and I love the picks and shovels part of investing in different businesses. And if those three are really expensive, then where do you go? Do you just wait or you just buy it? You know, we just talked about you can't buy anything at an infinite price.

Dave [00:18:51]:

So would you buy Amazon at any price? Well, no. So I guess that leads you to kind of go down the food chain, if you will. And so maybe we could talk a little bit about that, what your thoughts are on any of that.

Andrew [00:19:03]:

Sure. Yeah, I'd love to. And for full disclosure, I own two of the three. I own Google and Microsoft. Everybody knows where I stand.

Dave [00:19:11]:

Yeah, I don't actually have one yet.

Andrew [00:19:13]:

I'll own Google tomorrow. Technically.

Dave [00:19:15]:

Yeah.

Andrew [00:19:16]:

I recommended it today. Yesterday. All right, I'll throw one that maybe people don't think of much. And I wouldn't have thought of this unless I heard it because I already own the company. But I have a company called Martin Marietta Materials, and they make aggregates, so they take stone and gravel and they crush it up, and that's what turns into our concrete and our asphalt that you see. A shocking revelation is data centers actually need a ton of that when you're constructing those so you can. I mean, they're not. Not going to ride or die on whether data centers become huge or not, but it is just another one of their revenue streams.

Andrew [00:19:55]:

That could be a nice way to play not just data centers, but infrastructure and all of those things, too. And, you know, I obviously own that company as well.

Dave [00:20:04]:

Yeah, yeah.

Andrew [00:20:04]:

Any, like, super won't stand out to you.

Dave [00:20:07]:

We were kind of talking about this off air. One of the ones that tangentially I have ownership in is carrier. And you may not think off carrier what the air conditioning company, but their CEO said on a recent earnings call that they're seeing a huge demand for data center cooling. And these data centers, okay, Nvidia makes a lot of these data centers, they draw on a huge number amount of power and because they're drawing on that huge amount of power, they also generate a crap ton of heat. And so the company, they need to cool their units to allow them to continue to run efficiently. And Carrier is one of the people that can help a data center do that. They're seeing a huge demand for this from Google, from Microsoft, I'm sure from AWS. All these cloud companies are needing that resource to help them generate.

Dave [00:21:08]:

That's going to be a huge boon as these data centers continue to grow because you have to think of the data centers like a land grab. So the more that they can put up, the more ability they have to have more latency and more offerings to customers because the closer they are to the customers, the faster they can run. And that is just better. And so you're seeing these companies, I read yesterday that Google's, what are they? Is it 1213 billion? They're spending a quarter on capex and most of that is going to computers. And all the big cloud companies are doing this similar thing. They're spending a lot of money to try to build out the infrastructure. And so they're building out the infrastructure, they're going to Nvidia and buying the data centers, for example. And then they're going to Equinix to put the data centers up and then they're going to carrier to have them cool the data centers.

Dave [00:21:59]:

And so we own, I own whats go and whats go works with carrier very closely and so thats how I can benefit from that. And so maybe you dont buy AWS or Amazon, but maybe you look at investing in carrier because that is going to be a long term tailwind for that company, not just for this year, it's going to be, this is going to be an ongoing thing for quite some time. And so that's how you can kind of look down the food chain to find other opportunities.

Andrew [00:22:26]:

Yep. Along the lines there's backup power, the great tweet from quarter. And they showed a bunch of these different suppliers, Cummins who I used to own and caterpillar, they do backup our generators and that stuffs needed because these data centers have critical data and they need the backup. Right.

Dave [00:22:46]:

So, right.

Andrew [00:22:47]:

That's another one. You can kind of go down that path and see if you find opportunities. I saw a interview with Mark Zuckerberg very recently, and he talked about how the bottleneck now is not so much semiconductors, but power. Like power, just power, just straight up power. The, you know, I don't know what the numbers were. I wish I had them in the back of my head. But the amount of power that's needed to run these things is just crazy. I was just on Twitter a little bit ago, and they had, one of the headlines was Microsoft and Brookfield.

Andrew [00:23:26]:

Brookfield asset Management have struck a ten, $10 billion green power deal. And so to go back to kind of your work on energy, there could be a lot of different opportunities within that. One of the things, though, with the whole power stuff is like Zuckerberg was saying, and I've seen other people talk about to build out like the transmission lines for the electricity and all of those things. Those are very, very long term projects. And so those could start to become the bottlenecks in expanding this computing power further. And that could make an interesting dynamic because right now we see the supply of the computing is expanding rapidly. What happens if that gets crimped and what does that do to the entire industry? Right. It's, it's equal parts, maybe a little nerve wracking, but equal parts exciting because, you know, we saw what shortages can do to an industry, and there will be winners and losers.

Dave [00:24:27]:

Yes, for sure. I mean, to double down on the power idea. I read a few days ago that Georgia just had one of their nuclear facilities come online and theyre building a secondary on there and at huge cost. It took them forever to build. I think it was ten years behind schedule, partly because of regulatory reasons, but partly just because it just takes a long time to build a nuclear power plant, but it's going to generate a lot of energy and they need it. And so I know that this is going to be an ongoing problem, and some companies are trying to get ahead of it, like Microsoft, working with Brookfield Asset Management. That's one of their specialties, is building out infrastructure, particularly energy infrastructure, and even more particularly green energy production. So they're going to be working closely with Microsoft to try to help them build, whether it's solar panels or whether it's wind, in close proximity to the data centers that they're building.

Dave [00:25:29]:

And that's really going to be, I think that's really going to be the race. I think the semiconductors and everything and the data centers, I think that's all going to smooth out at some point, but I think the real race is going to be the infrastructure, and the United States in particular is kind of behind the curve a little bit on that, and we have not spent enough on our infrastructure. A lot gets talked about with roads. We had the unfortunate bridge collapse recently, but the roads are terrible, too. But really the bigger issue is the electricity infrastructure is way behind the curve, and it's not at a point where it can handle the uptick or the demand that these centers and just people in general are going to need. And so we're going to have to spend a lot of money and it's going to take some time. So, yeah, I think that could be a bottleneck, and that could be potential opportunities to invest that could have long term good results over a long period of time, because when something's needed like that, they're going to throw a lot of money at it and try to improve it as quickly as they can.

Andrew [00:26:26]:

Yeah. Anything else that really stood out in this ecosystem value chain, however you'd like to define it?

Dave [00:26:33]:

Not per se. I think one of the things that I guess I feel like I want to learn more about is maybe some more of the tech side and some of the energy side, because I feel like those are two areas that I think if I can understand the tech behind maybe how the cloud works, that maybe I could try to get a better sense of, okay, AWS is really better than these two, or vice versa, or at least be able to anticipate that if I start to see some change happening and then just getting a better handle on the energy and seeing if there are potential opportunities there, because I think that's going to be the biggest bottleneck, frankly.

Andrew [00:27:08]:

Yeah. I mean, you're not alone in like, having the, the scar tissue of intel and like, just how it was such a disconnect between where the tech was and where the financials were and that was so messy. And obviously, we always want to prevent that when it comes to technology. With cloud, though, it's such a different, like, technology type of business that really gets me excited. I've written before how it reminds me of scale economy shared. Was it Nick, sleep and Zacharias, they talked about. That's their favorite type of moat. That's their favorite mental model.

Andrew [00:27:40]:

It really applies to these cloud companies and just the way that you win by having the scale and the physical infrastructure. And I find it such an ironic thing that something that's so technical, fast tech, it's called the cloud. So we think of it as this vapor in the air.

Dave [00:27:59]:

It's not.

Andrew [00:28:00]:

And it's all, and it's a very physical, very capital intensive, very economies of scale type of business. And that's why I strongly feel, and we'll see if we're proven right or wrong, we got our chips on the table. That's why I strongly feel that there will be an AWS and a Microsoft Azure and probably a Google cloud platform. And I think they will all do pretty well.

Dave [00:28:24]:

Yeah. I mean, I liken it maybe to like a visa, Mastercard where they all can function and be profitable businesses alongside each other for a very long time.

Andrew [00:28:35]:

Yeah.

Dave [00:28:36]:

Anything else you'd like to add, sir?

Andrew [00:28:37]:

Unless Nvidia takes everybody out and everybody has portable data centers in their home and nobody needs the cloud anymore, that could happen.

Dave [00:28:47]:

It could happen. It could happen. I guess the other side of that too, though, is that some of these bigger companies, like all three of them, actually are starting to build their own chips. And so at some point, maybe they crowd out the TSMCs or the AMDs and produce their own chips. And, I don't know. I mean, so there could be a lot of ways that, you know, maybe they crowd out Nvidia at some point. They just don't need them because they can create them. So, I mean, very possible.

Andrew [00:29:14]:

Yeah.

Dave [00:29:14]:

You know, I would never bet against the engineers at a Google or Microsoft, for sure.

Andrew [00:29:18]:

Yeah. Smart folks.

Dave [00:29:20]:

Yes, they are. All right. Well, with that, we will go ahead and wrap up our conversation for today. I wanted to thank everybody for taking the time to send us those fantastic questions. If you have a question, you can send it to us at newsletter investingforbeginners.com dot. You can also do it at Spotify or you can send them to us at Twitter podcast. So we'll go ahead and read those on the air and answer for it and help you figure out some stuff. So with that, we'll go ahead and sign us off.

Dave [00:29:47]:

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.

We hope you enjoyed this content. Seven steps to understanding the stock market shows you precisely how to break down the numbers in an engaging and readable way with real-life examples. Get access today@stockmarketpdf.com until next time have a prosperous day. The information contained just for general information and educational purposes. Only it is not intended as a substitute for legal, commercial, and or financial advice from a licensed professional review, our full disclaimer@einvestingforbeginners.com.