



Understanding the PIVOT Framework: Exploring the Moats of Costco, American Express, and Google

All right, folks, so welcome to Investing for Beginners podcast. Today, we're going to have a fun show. I always say that, but we always have fun. So today, we're going to talk about the last part of the pivot, which we have been talking about over the last few shows. So this is a framework that Andrew and I came up with to help everybody become better investors. And it's also part of the.

00:00:52 Dave

Now you spotlight, which you will now be able to see and view and get now that we're live. So the key part of the pivot is the thinking notes. So pivot stands for portfolio.

00:01:07 Dave

Idea generation, valuation, observed metrics, and thinking modes. If you are curious about the other 4 pillars of the pivot, you can listen to the previous 4 episodes where we break those all down. So today we're going to talk about thinking notes. This is a probably undiscovered undiscussed enough.

00:01:26 Dave

Topic based on the importance it has for.

00:01:30 Dave

Picking stocks so Andrew does a really, really, really good job of breaking down moats and determining creating mental models that you can use as frameworks to adapt them to other.

00:01:42 Dave

Companies and that's what we're going to talk about today. So Sir Andrew, let's talk about Costco. One of our favorite companies. And besides drinking the kool-aid, what do you think of the Moat of Costco?

00:01:57 Andrew

The MO of Costco was coined by Nick Sleep. He was one of the great investors, only invested for a short time, but had just incredible returns and.

00:02:10 Andrew

Bought Costco, bought Amazon and just did really really.

00:02:12 Andrew

Well.

00:02:14 Andrew

The mental model is called scale economy shared, and we've talked about on the show before. Another company that I feel displays this.

00:02:26 Andrew

Which I haven't heard anybody talk about, but to me, like the pieces kind of fit to.

00:02:30 Andrew

The other is Microsoft's Azure Cloud segment, so you can also apply that to Amazon's AWS. So in the way maybe Amazon has two scale economy share businesses side by side, but the whole.

00:02:44 Andrew

Attraction of a scale economy, shared mental model and Moat is that it becomes stronger the bigger they get.

00:02:51 Andrew

Because.

00:02:52 Andrew

You're getting the the advantages in having scale and getting bigger and So what scale does is it allows you to save on costs. It has a lot of advantages. But basically if your advantage is scale and then if you are sharing that, in Costco's case they share the savings with their members.

00:03:10 Andrew

And So what makes that so powerful is now.

00:03:16 Andrew

As a company gets bigger, more successful, the economies of this sharing becomes more and more valuable. So for me, Costco becomes more valuable to me as a member. The bigger Costco gets, they're able to get even better deals for me. And so that becomes a mode that strengthens over time.

00:03:35 Andrew

Which is quite rare then. That's really exciting to me as an investor.

00:03:40 Dave

Yeah.

00:03:40 Dave

It's it's very exciting. This is maybe before we kind of really start to peel back a bunch of layers on this. What is a Moat or what is a competitive advantage.

00:03:52 Andrew

Yeah, basically something that differentiates a company from its competitors. Something that because the nature capitalism.

00:04:00 Andrew

People will compete if there's profits somewhere. If there's growth somewhere, people will compete. And if you're not on your game as a business, somebody will take your customers. And so because of that nature of capitalism, you need to.

00:04:13 Andrew

Be able to provide something that differentiates you from.

00:04:18 Andrew

Competition.

00:04:19 Dave

If.

00:04:20 Andrew

If.

00:04:22 Andrew

My daughter can go and and duplicate your business in five days. You don't have a very strong business. That's no Moat. And so that's kind of the idea behind it. And so as investors, we do buy companies and they do grow even without moats. But if you're trying to be the type of investor that we are, which is.

00:04:43 Andrew

Buy something and hold it for the very long term so that the business can just.

00:04:48 Andrew

Continue to grow overtime and and become more valuable.

00:04:52 Andrew

That becomes a lot easier for a company when they have something that's about something that.

00:04:59 Andrew

Systemically is part of their DNA that makes it easier for them to to keep competition away so people just can't come in.

00:05:07 Andrew

And copy what they do.

00:05:09 Dave

Yeah, exactly. So why? Why?

00:05:12 Dave

Are most important for investors.

00:05:16 Andrew

So the when when you have that strong Moat, then everything else kind of lines up and takes care of.

00:05:23 Andrew

Itself.

00:05:24 Andrew

There are a few things that can throw it off. Management being bozos with the money can be one thing that would throw it off. So you.

00:05:31 Andrew

Can't.

00:05:31 Andrew

Just center it on one idea and say OK, I found a great investment. There are other.

00:05:37 Andrew

Other pillars, if you will, PIVO for example, but having that mold can be so strong because.

00:05:46 Andrew

One it can free up the business to have lot flexibility when you have a mode you're going to generate a lot of profit, a lot of cash flow. And so if that mode it's strong enough and if it's in the company's DNA and it's already established and they don't have to do much.

00:06:00 Andrew

To sustain it.

00:06:02 Andrew

That provides so much opportunity for investors.

00:06:05 Andrew

You can have huge dividends, huge buyback.

00:06:08 Andrew

Company can make great acquisitions like we're seeing Microsoft just acquired Activision and they've had lots of great acquisitions in the past, LinkedIn being another one. So the the upside for investors is really high when there's that strong moat anchoring that stock and and keeping the business.

00:06:27 Andrew

Churning and and moving forward. So I mean there's there's lots of advantages and if I missed any, please chime in as well. But to me that's a big one.

00:06:28

Board.

00:06:36 Dave

Yeah, that's that's probably the biggest one is, you know, it gives them that economic power that they can continue to.

00:06:45 Dave

Do what they do so that they can continue to grow and you know the the ideal situation is you find a company that has built such a strong Moat and a competitive advantage that it can withstand. As you said, the management that does bozo things with the money.

00:07:04 Dave

Because the you know if if the company is strong enough it can withstand some of those things. And that's I mean those are the, those are the unicorns, right? These are not something you can find every day and not every company has.

00:07:19 Dave

A Moat and it's a rarer thing to find these kinds of companies, if I'm correct. Buffett is he didn't. He didn't create this idea, but he he's the one who kind of coined the the phrase Moat and popularized it among investors.

00:07:35 Andrew

Yeah, I think so. Yeah. Yeah.

00:07:38 Dave

All right, so let's, let's get back to Costco for a minute.

00:07:41 Dave

So.

00:07:42 Dave

When we when we think about Costco, we think about these large warehouses that sell these things, sell the their products for cheaper than other people is that is that it in essence or or is there more to it than that?

00:07:58 Andrew

Well, Costco's special because it's been designed very carefully, a lot of details come together to make the whole Costco scale economy shared work. So part of it is they're only open a certain set of hours so they can save on labor.

00:08:18 Andrew

Other than having 2-3 shifts, you can have one full time shift and that saves a lot in labor.

00:08:23 Andrew

You have the way that the the warehouse is.

00:08:27 Andrew

Yes.

00:08:29 Andrew

There's no frills to it, it's just cartoons, crates of merchandise. And so that's very easy for stocking and and and doing those things.

00:08:40 Andrew

They have the buying power, so they they buy these things in bulk and.

00:08:45 Andrew

Manufacturers of of these goods, they want to be inside of Costco because there's so much volume that you can get so many customers, so many loyal customers. So I mean that's.

00:08:58 Andrew

I think that's scratching the surface. I mean, even even the the parking lot, they they they select particular land to to cater for the parking lot and the food court, there's just so much about that experience that.

00:09:12 Andrew

You just don't get at a normal store, and that all comes together to to make.

00:09:20 Andrew

It saves cost. No money, which they then share with with members. And so I can go to Costco and get something.

00:09:26 Andrew

And as simple as like Ritz crackers. And though I'm getting, yeah, I might be buying more.

00:09:31 Andrew

Of.

00:09:31 Andrew

Them, but I don't have to buy them as often because I'm getting them in bulk and on a per cracker basis I'm saving money.

00:09:38 Dave

Yep, Yep, exactly. And one of the things that I like about it which when I first read about this particular item, really kind of at first it it didn't dawn on me how this could be part of their. Their Moat was having a limited selection. So they have less than 4000 SKUs.

00:09:59 Dave

I'm reading this right from your write up and they.

00:10:03 Dave

You may think. OK, well, hey, that sounds like a lot and B, so what's the big deal, right? And the big deal is, is that they don't have as many products to sell, which means to you, as you said earlier, they can go out buy a whole lot more of it and get a better price because they're buying a whole lot more of it. And then they're turning it.

00:10:23 Dave

A lot quicker because they have fewer choices on the shelves to buy things and that causes this kind of.

00:10:31 Dave

Flywheel of OK I got fewer things that I can move through my inventory a lot faster. Now I can pay a lower price for it and then I can pass that on to the consumer like you and I and we like it more. So we buy more of it and it just creates this, you know kind of a flywheel that it just makes it more and more valuable as.

00:10:51 Dave

Consumer.

00:10:52 Dave

To go there, because to your point, you know my my wife and I when we go to Costco, we go once a month. You know, we spend a few bucks when we're there, of course. And it, you know, it can be a little bit of a sticker shock if you will when.

00:11:05 Dave

You see the overall.

00:11:06 Dave

Total. But then you notice well, hey, I don't go through.

00:11:10 Andrew

That that fast.

00:11:12 Dave

And by the end of the month, OK, you know, I gotta go refill on all these things. But you know the.

00:11:18 Dave

You know, it reduces the amount of times that we go to other stores to buy some of the smaller items because we just don't have to go as much and that saves us time, which to me is more just as important as saving a few few dollars. So that to me is one of the things that makes Costco stand out as a retailer.

00:11:38 Dave

Plus, when you go there, people are actually friendly and like, enjoy being at work. It's kind of it's kind of refreshing.

00:11:46 Andrew

Yeah, for sure and like to shop there as.

00:11:49 Andrew

Well.

00:11:50 Dave

Yeah, I know, I think we.

00:11:51 Dave

All do.

00:11:54 Andrew

So what what I find fascinating about that model in particular, and really all of these models is, once you've conceptualized it and have been able to identify it, you can apply it to other businesses. Maybe Cookie cutter is not the right way to describe it because that sounds very generic.

00:12:14 Andrew

But you can take that, that mental model and apply it elsewhere. And if you can spot it, I think that can be a.

00:12:20 Andrew

Right. If you can spot it early compared to what when other people spot it and that can be a great way to make extra money in the stock market. So Azure I think is one of those also basically what they do is they provide cloud computing for their, for their clients. And so in the whole world before cloud computing.

00:12:38 Andrew

If Dave and I wanted to start a business and we wanted to have like.

00:12:42 Andrew

Let's say we want videos on our website and you know you would need all these big expensive servers that you would have to buy from IBM or whoever.

00:12:51 Andrew

Every business would have to buy those, and it's expensive and you need to outlay a lot of capital for that. And you have to depreciate it and blah blah blah.

00:13:01 Andrew

Now, with the cloud computing, you can outsource that to Microsoft Azure or Amazon AWS and so the savings for a business owner.

00:13:11 Andrew

Is is really high in that way and so because.

00:13:17 Andrew

These hyperscalers.

00:13:19 Andrew

Alphabet, also one of them, but they are buying all these huge server farms and the chips for them and all of these.

00:13:25 Andrew

Things so they are growing in scale so that they can serve more customers. And then when you start to I'm far from like a tech expert when it comes to the cloud stuff. But when you start to.

00:13:37 Andrew

Peel the onion back a little bit and you see that.

00:13:40 Andrew

You know if if you and I were a business owner, we could only use one server one time and that would probably lead to a lot of waste because we're not using it 24 hours a day. But if if if Amazon has the same server or Microsoft has the same server and maybe four or five customers are tapping that server at different times of the day now you have economies of scale.

00:14:00 Andrew

And so in that same way, the cloud computing companies made computing a lot cheaper for businesses. And that's what that's how things like Netflix are possible and.

00:14:11 Andrew

Yes, I understand. Like the the latest boxing match wasn't the greatest advertisement for cloud computing. Apparently, there was a little bit of spinning, spinning wheel of doom there, but in general it's it's really made computing that much more available and cheaper and so they could.

00:14:31

Of.

00:14:32 Andrew

Very well. Kept all of that margin for themselves and made like, bigger profits. These cloud computing companies, but by sharing more of it with their customers now customers can take that and reinvest in their own businesses, grow their own businesses and end up consuming more computing power.

00:14:52 Andrew

And over the long term. And so it has had this.

00:14:57 Andrew

Maybe explosive effect to the economy in a way.

00:15:02 Andrew

And so it's another very powerful example of scale economies being shared and creating a lot of value.

00:15:08 Andrew

For the people who.

00:15:09 Dave

Are involved. Yeah, that that is a great example. And truthfully, I had not heard anybody talk about that related to Azure in particular. So that I think, but I think your.

00:15:21 Dave

Your analysis is right on the money, and like a caveat to all this, isn't it amazing that we live in a day and age where you can stream something?

00:15:30 Dave

Like a movie or show on Netflix, or listen to a song on your phone through Spotify and it's instantaneous. And if it isn't, we get mad.

00:15:38

And.

00:15:40

Yeah.

00:15:42 Andrew

Truly insane.

00:15:43 Dave

Yeah, I mean I I I'm old enough to remember the the dial-up days and, you know, starting to download a file, then going to work and then coming home and it's almost done kind of thing.

00:15:56 Dave

Times have changed.

00:15:59 Andrew

All right, let's.

00:16:00 Dave

Let's move on to our next Moto or mental model and the company. I'd like to kind of chat a little bit about is one that I don't think it's enough love and that's American Express. So what are your thoughts on American Express just as a business? And then maybe we could talk about its Moat and what you wrote about for their mental model?

00:16:20 Andrew

I think American Express is a great business. They've got a little bit of Brown brand power they have.

00:16:27 Andrew

Loyal customer base.

00:16:30 Andrew

I think it's great. What do you?

00:16:31 Dave

Think about it. I think it's. I think it's awesome. I I distinctly remember when I was working in the restaurant business the first time I came across an American Express black card, you know, and it was one of the servers was given the card to make a payment. And I remember they brought it back to the.

00:16:49 Dave

The station to make the payment whenever, like the seemed like the whole staff was all huddled around, you know, just checking out this person's, you know, credit.

00:16:57 Dave

Card cuz wow.

00:16:59 Dave

Because you know it, it had that kind of mystique. I don't know if it still does, but it did. It did back then, and it really kind of made an impression on me. So when I got into the whole investing thing and discovered that American Express was a a public company that I could potentially invest in and it fit into the whole Fintech.

00:17:19 Dave

You know, wheelhouse for me, that's all she wrote, right?

00:17:25 Andrew

As per pretty decent investment for us.

00:17:27 Dave

Yes, yes, it has been for sure. Yeah. Yeah, for sure. I mean it's it's one of those companies that, like you said, it's been around since the 1850s. A lot of people probably don't know that, but it was part of the kind of Wells Fargo Pony Express kind of business model and they kind of grew.

00:17:47 Dave

Over a long period of time and it was one of Warren Buffett's first.

00:17:53 Dave

Famous investments and did really well for him. He sold it and then obviously kept his eyes on it and years later bought more of it. Now he I think he owns 1518% of the company so it's a really, really big part of the and and he's I think the the largest shareholder of the business other than.

00:18:13 Dave

Some of the the you know, the big funds that that own it and whatnot. So it's a, it's a strong strong company, but what a lot of people don't know about American Express.

00:18:21

That's.

00:18:22 Dave

It one of the things that's really strong about American Express that a lot of people don't realize is it it's different than Visa and MasterCard. Visa and MasterCard are basically toll booths for payments, but American Express is actually a credit card and it's a bank and it also is a payment system.

00:18:42 Dave

So it's a closed loop system, and that's what makes it so powerful and.

00:18:47 Dave

It also limits the amount of the people that can get American Express card, and they also have merchants love them. They don't like the fees that American Express charge. I can, I can tell you that from experience, but we do like the money that their card holders spend because they generally are more affluent customers and they tend to spend more when they use their.

00:19:08 Dave

Hard going out and so.

00:19:10 Dave

A merchants want to accept their credit card because of that, and so it just creates this.

00:19:14 Dave

Kind of like.

00:19:15 Dave

Closed loop that they can American Express can benefit from cardholder balances as well as the fees that they charge merchants to use their credit card, and they are. They're also bank so they can give out loans and they can hold deposits and all those kinds of things so.

00:19:31 Dave

I mean, it's a really, really strong, strong business and I've I've been a big fan for a long time.

00:19:40 Andrew

Yeah, it it really is. And they have done.

00:19:44 Andrew

You've seen the.

00:19:47 Andrew

The positive effect of their Moat over a long time and the way they just kind of steadily grow over time and definitely been 1 of Buffett's better investments. And like you said.

00:19:59 Andrew

He's a big shareholder now, but yeah, it makes a decent amount of his portfolio still today.

00:20:06 Andrew

What? What? What I find interesting about the business is.

00:20:12 Andrew

They they take the.

00:20:15 Andrew

They take their profits and reinvest it back into the into their customers and I think that's what makes them different.

00:20:23 Andrew

They, like they've said they they charge the higher fees because their card holders generate more volume, so they're charging higher fees to the merchants. And so that's giving them a bit bigger profit spread on the transactions themselves.

00:20:37 Andrew

And rather than pocket that money, they're turning around and and sending it back to cardholders.

00:20:43 Andrew

And so the card holders are getting better rewards than they would if they had a different card. And so that creates very loyal customers.

00:20:53 Andrew

And so if you look at their financials like their income statement.

00:20:57 Andrew

They generate a pretty pretty high amount in fees as as revenue, but then they also spend almost an equal amount in credit card rewards that go that go to their customers and.

00:21:10 Andrew

That takes effect not just of like cash reward.

00:21:12 Andrew

Foods but also, you know, lounges and premium experiences.

00:21:18 Andrew

You can go watch the Laker game and have a really fun, unique time that you can't do without an American Express card. So a lot of benefits that are that.

00:21:26 Andrew

Come.

00:21:27 Andrew

So a lot of benefits that accrue to cardholders and then American Express makes money as like they've said, a closed network. And so they do make money that way as a credit card.

00:21:38 Andrew

Bank as well as you know transaction provider.

00:21:43 Dave

Yeah, it it. You know the the.

00:21:46 Dave

The merchant rewards are what is one of the big reasons why cardholders are attracted to American Express. Most cards don't charge annual fees. Some cards have lower transaction costs or rates that they charge customers. American Express actually charges.

00:22:07 Dave

Higher rates and has in a lot of cases has an annual fee to just be a member of the card. But like Andrew said, they also give back a lot of their their quote profits in those rewards because they know that that's what attracts customers to their brand.

00:22:26 Dave

You know, compared to other credit cards that may offer rewards, but they're not as good and they don't have different tiers and there's they, you know and like Andrew said, they offer these special perks and privileges and experiences that you can't get

with other cards because the American Express is choosing to use the profits that they make.

00:22:47 Dave

As these are reinvestments in their customers like you said and that that's kind of sets them apart from a lot of other banks and credit cards and that's what kind of sets them apart.

00:22:58 Dave

And you saw the strength of this business during the pandemic. Yes. Travel was down. Yes. The business travel was not traveling as much or spending as much. But the company kept doing what it's doing. It didn't change its operations. It didn't try to adjust. It just kept doing what it's doing and it's bounced back beautifully.

00:23:18 Dave

Since the pandemic and that just to me shows the strength of their business model and what they're trying to do with with the business.

00:23:28 Andrew

And I called it a flywheels term borrowed from Jeff Bezos, when.

00:23:32 Andrew

He.

00:23:33 Andrew

Talked Amazon and.

00:23:35 Andrew

And.

00:23:37 Andrew

How Amazon wows their customers but for American Express.

00:23:41 Andrew

They they do well, right? They grow, which allows them to reinvest in the customer.

00:23:47 Andrew

And so the customer is loyal, spends more money with the merchant and then the merchant gives more back to MX, who gives it back to the customer. So it creates this this flywheel. And so as that value increases and grows.

00:24:02 Andrew

The brand grows and the whole value proposition to the Amex card holder also gross. And that's makes it very strong because once a flywheel gets going, it's hard to stop and that's that's what you see with American Express and other modes that are kind of this virtuous cycle flywheel kind of type.

00:24:22 Dave

Hmm. Yep. Yep. Exactly. Yeah. I mean it's it's, you know, I'm not. I don't have an American Express card, but I do really like what the company is trying to do. And I I also like the fact that they have a long history. And that to me symbolizes stability. Like, this is not going to grow like.

00:24:42 Dave

The media. But that's not the expectation. When you invest in a company like American Express and it's arguably one of the strongest brands, especially in the in the money world, if you will.

00:24:54 Dave

And so that to me also gives them, you know, it gives me a little bit more comfort knowing that, yeah, it may not grow at 35%, but I also know what's going to be around for a really long time.

00:25:06

Yeah.

00:25:08 Dave

All right, so let's let's move on to our last discussion of motes and this is going to be related to Google and they're a mental model of economic toll booths. So what did you mean there when you were kind of talking about that for Google?

00:25:25 Andrew

Well, if you think about a toll booth.

00:25:30 Andrew

It just sits there and collects your money as you drive by.

00:25:35 Andrew

This was a another term, but this one by Warren Buffett he talked about. I can't remember what I think.

00:25:40 Andrew

He said newspapers were told Booth.

00:25:44 Andrew

I might be wrong on that but.

00:25:46 Andrew

Just this idea that some businesses, you know, a lot of businesses have to compete and they have to scratch and crawl and and really earn their customer and and work really hard and do it over and over and over again.

00:25:56 Andrew

Some businesses are just.

00:25:59 Andrew

Structured where they don't have to do much other than.

00:26:03 Andrew

Keep keep, keep.

00:26:04 Andrew

The lights on and and you know you do all the you do all the blocking and tackling that you need to do to make sure you're a good business, but they don't have to go out and be super aggressive every day of the week. They don't have to go out and do, you know, perform miracles to stay alive.

00:26:19 Andrew

They just kinda.

00:26:21 Andrew

Open for business and as the economy grows, they naturally get to grow alongside the economy. Because of the nature of the service they are providing.

00:26:30 Dave

Yep, Yep, exactly. I want to read a a short sentence here that you wrote about economic toll booth. So which I think is really kind of profound. The best long lasting businesses in the world are able to grow alongside the economy organically while pursuing market, beating growth through other avenues like M&A, market share accumulation.

00:26:51 Dave

And margins improved margin improvements.

00:26:54 Dave

I think that just kind of sums up what Google's trying to.

00:26:57 Dave

Do.

00:26:58 Andrew

Right. Yeah. Oh, for sure, I mean.

00:27:02 Andrew

Alphabet Parent company owns Google and YouTube. Both of those websites, at their core, are helping people find the answers to their problems. I mean, YouTube, partly entertainment, and obviously you can go on Google for entertainment.

00:27:18 Andrew

Too, but that.

00:27:20 Andrew

That core service or that core need?

00:27:23 Andrew

Of you have something you're looking for, so you type it into that search bar.

00:27:29 Andrew

Is something that naturally gets to grow alongside the economy because it's fundamental. It's a principle like it does not change. So as long as they stay.

00:27:40 Andrew

Relevant and they're able to provide what you are looking for by directing you to other sources, whether it's a, a website or a video.

00:27:50 Andrew

Then they can grow alongside the economy and that's really strong. Do you want to talk about?

00:27:53 Andrew

Some.

00:27:53 Andrew

Of the and because the economic toll booth is so strong.

00:27:58 Andrew

They're freed up.

00:28:00 Andrew

To do other things with with their capital, with their business interests. So one of those things we're seeing now is the Google Cloud platform, which we talked about Microsoft Azure, Amazon AWS, the cloud computing.

00:28:14 Andrew

Google is now able to take free cash flow and reinvest in their cloud services and.

00:28:22 Andrew

I mean, we're kind of still seeing market share gains for the cloud computing hyperscalers there's no other way to explain what's going on with with their growth rates. So they're still happening like they're just still simply taking share from legacy tech and so.

00:28:40 Andrew

Google.

00:28:41 Andrew

Google's free cash flow from Google, the website YouTube the website can go into these server farms that are capital intensive.

00:28:51 Andrew

And they're trying to build up that scale so they can serve more customers and able to find that growth. Ave. on top of whatever growth they're ready naturally getting from the economic toll booths. So that's that's a really, really powerful way to to compound capital for shareholders because you're getting multiple streams of compounding and that that's that.

00:29:11 Andrew

Would be really nice.

00:29:12 Dave

That's and that's very powerful. And to further your your point about that, one of the things that's making Google so.

00:29:22 Dave

I.

00:29:22 Dave

Guess.

00:29:22 Dave

Strong and powerful is, as you mentioned, they're they're taking these cash flows that they generate from their toll booth part of the business and putting it into other parts of the business that are now growing even faster than the toll booth part of the business. So something like Google Cloud is growing.

00:29:41 Dave

That, and we're talking run rates of.

00:29:45 Dave

80 to \$100 billion a year in revenues, then it's growing at 3035% a year, which is huge numbers and not too long ago that segment was negative as far as like earnings was negative and now it's positive and you can see it just scaling up just like the other parts of the business.

00:30:04 Dave

And they're also one of the leaders in AI and all the things that they're doing with that will just continue to compound and improve the other parts of the business and Google search and as well as YouTube search are they're the number one, number one and #2.

00:30:25 Dave

Search engines in the world and like you said, people use it to go to find answers. I know that I go to YouTube. I'm not a power user of YouTube by any stretch, but I do go to it when I need.

00:30:35 Dave

Help figuring out why my air fryer is not working. It wasn't turning on the other day. I couldn't figure out what was going on, so I YouTube. I went on YouTube, found the guy that was talking about how to fix it, and we'll behold. I fixed it. So it just proves what kind of services it offers and how much it can help. And it not only.

00:30:55 Dave

Is it in the cloud and the different online services? But they're also building out Waymo now. And who knows what's what's going to happen with that. And so I just think that a company like Google has so many different avenues.

00:31:10 Dave

That it can continue to try to generate revenues and like you're saying different revenue streams and it it gives them this term can be overused a little bit. But I think for Google it probably applies and that's optionality. They have other other ways they can go with different things and it just creates a stronger and stronger company.

00:31:30 Andrew

Yeah.

00:31:31 Andrew

And so that mental model.

00:31:34 Andrew

I think you find it in a few other businesses, but when you can find it to me it helps.

00:31:41 Andrew

Helps me think about is this a company I could hold for twenty 30-40 years potentially if all goes well and you would you could argue an economic toll booth.

00:31:54 Andrew

Would would have that kind of longer lasting quality compared to your average business. So other businesses that kind of pop to mine are Visa, MasterCard or the home builders are even kind of like one in that.

00:32:11 Andrew

Home prices go up as the economy goes up.

00:32:14 Andrew

People need people need a place to live, so you boil it down.

00:32:20 Andrew

There are these these fundamental needs that are being solved.

00:32:24 Andrew

Whether it's a question of some of these problem, whether it's paying for things we all have to pay for things, whether it's having a place to live.

00:32:33 Andrew

With new homes.

00:32:35 Andrew

All of those things are are basic human needs and.

00:32:39 Andrew

Have gone up alongside the economy. And so when you have that pricing power, you don't have to.

00:32:47 Andrew

You you the way you grow that other businesses grow, you don't have to do you get to do in addition to the growth, so it's it's.

00:32:56 Andrew

They're favorable in that way.

00:32:58 Dave

It is, it is. And I think if you think about what we've talked about today.

00:33:05 Dave

I think the way that I look at it and correct me if I'm wrong, but I would look at these mental models as tools that I can use when I'm analyzing other companies.

00:33:15 Dave

And think about what gives this company a competitive advantage and how can I take these mental models and see how a company may fit into this or not. And one

of the hardest parts I feel like when you're analyzing a business is trying to determine a does it have a Moat and what?

00:33:34 Dave

Is it?

00:33:36 Dave

Because a lot of you.

00:33:37 Dave

Or investment gains are going to come back to the economic success of the business. And yes, there are companies that can succeed and do well for a short period of time. But if you really want to generate wealth in the stock market, you have to be invested for long periods of time in, you know particular.

00:33:57 Dave

Companies and part of the trick of that is determining what a company that has a Moat because they're not going to last for 25 years, 30 years, 50 years without it. And so that is why this is such an important topic and why.

00:34:13 Dave

I think using these mental models as a part of your toolkit to help you find different companies you know. Truthfully, I would have never thought of Azure as you know, a part of a model you know, a scaled economy shared is a term I've heard of associated with Amazon and with Costco.

00:34:33 Dave

But I had never heard of it a, you know, associated with Azure, but as you explain it all makes perfect sense. And so that's how you can take these mental models and kind of use them to work with other companies as you're working through your analysis.

00:34:49 Andrew

Yeah, that's the hope.

00:34:51 Dave

Yeah, that is the hope for sure, so.

00:34:54 Dave

Let's talk about kind of what we got going on with value spotlight. This is the last day of us talking about thinking notes. It's also the last day of our Black Friday sale. So maybe we could kind of talk about the community and what what we're so excited about with that.

00:35:13 Andrew

Well, one of the things you could do if you're looking at a company and you're not sure what the mode is or maybe you're like, hey, this company looks like scale economy share to me.

00:35:24 Andrew

What do you guys think? That's not. That's not something you can do without community. Luckily for all these years I've had you, Dave, to.

00:35:33 Andrew

So I could bounce ideas off and you can tell me if something's kind of.

00:35:38 Andrew

If I should go do some more work on it, but you know for for a lot of investors, they don't have that luxury. It's hard. It's hard investing is hard because.

00:35:47 Andrew

I could I could try to talk to my friends from back home, from high school friends I have out here where I live about stocks and boats and and PE ratios and all of that, but most of them won't care. And so it's hard to find your people.

00:36:05 Andrew

To talk about these things, but talking about these things is how you can process and analyze.

00:36:11 Andrew

Figure out modes for yourself, or figure out if a company fits this mental model or not. And so I think to me that's why community is so huge and that's why I'm excited for what we have for Black Friday, because this is your opportunity to to get the best of what we have and to be a part of this engaged community. I mean just it was it yesterday.

00:36:32 Andrew

Two days ago, when Target had its thing and then one of the girls today said I don't believe target has ammo anymore and then had like just a very simple reason why she believed that.

00:36:34

MM.

00:36:47 Andrew

And.

00:36:47 Andrew

It's.

00:36:48 Andrew

Sometimes, as it is that simple, right? But to have that value of having other people's perspectives, other people who are looking at different areas of different businesses and to be able to bounce ideas off or or challenge people over time as as you gain skills together and knowledge.

00:37:05 Andrew

I think that can only help your investment process.

00:37:08

Yes.

00:37:08 Dave

Ohh it it, it absolutely can only improve your investment process because the more I I've said this before and I I really think it's true, the more brains you can bring to a

problem, the better answers you're going to find because each one of us approaches our.

00:37:29 Dave

Information or how we disseminate information from our own.

00:37:33 Dave

You know unique perspective or viewpoint based on our past experiences, our education, what we learn, what we didn't learn, you know all those things.

00:37:43 Dave

All play a part and people can you can look at a problem.

00:37:47 Dave

Till you blue in the face. But somebody could come up with some simple answer that you may not think of that could open up a whole new world of things. And that's the to me, that's the power of having a community or other people that you can bounce ideas off of. We're talking to Jeff and Jason from investing.

00:38:04 Dave

Scripted the other day and they mentioned on the podcast and I think it's so true. We don't really have a lot of people to talk about with this stuff. And you know, they were like, you know, it just got, you know, Jeff and Jason and you guys and that's it. So investing can be a long way one way game. And I think having other people like Andrew and I've been lucky enough to have over these years.

00:38:26 Dave

To bounce ideas off of is so, so valuable, and it's one of the best ways I know to become a better investor, and that's what we're offering with value spotlight and with the community within.

00:38:37 Andrew

Yeah. You ever watch an Ant go about its business to find?

00:38:42 Dave

MHM.

00:38:43 Andrew

Do you know I'm going with this?

00:38:45 Dave

I think so, but enlighten me.

00:38:47 Andrew

So OK, I I don't know if this was in the mobisson book or it was it was in some obscure investing book. But when these ants they go out to find food they're in, they go out in these very random paths. So, you know, they might wander here, wander there.

00:39:02 Andrew

And then once they've identified the food, then they come back, and then one aunt tells another aunt who goes back and tells another aunt, and then they have, like, this clear, defined path and so.

00:39:15 Andrew

I mean, in a way, investors are kind of out there wandering randomly on their own path, but if you can find somebody that bounces ideas off.

00:39:23 Andrew

And then we could all build wealth together, right? The whole, the whole, the whole anthill can get fed by one person's wandering. That's the power of the Internet today that we just simply did not have 20 years ago. And so I'm asking for the sake of My Portfolio. Please come join us so that you can be that wondering out for us and we can all be that wondering and.

00:39:30

Mm-hmm.

00:39:43 Andrew

For each other together, because everybody wants to be an aunt.

00:39:46 Andrew

Right. Well.

00:39:48 Andrew

That's gonna wrap us up like they've.

00:39:50 Andrew

Pardon.

00:39:51 Andrew

That's the last thing at the black.

00:39:52 Andrew

Friday.

00:39:53 Andrew

Sale. So if you like a good deal, go out and do that 11:00 PM Eastern on Cyber Monday. That's the last day you could do it. So I want to thank everybody for listening and supporting the show. We always appreciate your questions and your feedback. Take action today, connect, learn and grow with value spotlight.

00:40:11 Andrew

Peace

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](mailto: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.