



IFB378: Expanding Your Circle of Competence - A Beginner's Guide

.Dave: Welcome to Investing for Beginners. Today Andrew and I are going to talk about how we go about potentially expanding our circle of competence. In our value spotlight community, we have a challenge coming up that focuses on helping people grow their circle of competence through various methods and learning challenges.

Let me start by explaining my approach. Whenever you start to learn anything new, you have to begin with what you know and what you don't know, then try to fill in the gaps. For example, if I wanted to learn how to code HTML or JavaScript, my circle of competence would be very small, with much to learn.

My learning approach involves:

- Gathering as much information as possible
- Asking questions
- Looking for experts in these fields
- Spending time assimilating different resources and knowledge
- Putting knowledge into action

Andrew: When I tried learning Python for synthesizing big data sets, my wife's cousin, who's experienced in coding, advised me to simply write code as much as possible. This aligns with the principle of learning by doing rather than just consuming information.

We've discussed on the show the idea of putting skin in the game - buying shares in a company teaches you far more than just observing from afar. Having shares in a business or in an adjacent industry helps retain information and process it more deeply. The goal is to achieve mastery of how a business or industry works to find the best investment opportunities.

Dave: That reminds me of my experience learning Portuguese, as my wife is Brazilian. I spent four and a half years using Duolingo and Babel apps, which helped with grammar and vocabulary, but actual communication was challenging. When I visited Brazil, I could read signs and menus, but speaking with people was like being a toddler learning to talk.

This experience relates to my desire to learn about commodities. While I may not invest in them, I don't want to ignore the sector due to ignorance. The challenge we're doing will force me to confront something I'm uncomfortable with, just as I need to push past my fear with Portuguese.

Andrew: That's powerful. Accounting is the language of business, and many people let the numbers intimidate them. As Damodaran said in his book, numbers can be used to intimidate. But if you want to learn accounting, I recommend working with real business numbers and getting feedback.

Dave: I gained experience creating P&Ls, balance sheets, and cash flow statements while running restaurants. Though I'm not an accountant, this practical experience helped me understand financial statements when I got into investing.

For those without such experience, I recommend:

- Creating personal financial statements
- Reading books and resources on finance and accounting
- Practicing with real company 10-Ks
- Verifying understanding through analyst reports and historical comparisons

The key is combining structured learning with practical application. As experts in learning suggest, doing both simultaneously accelerates progress and builds confidence. Whether it's finance, using DCF models, or any other skill, it's about building and using that muscle consistently.

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