Brian Feroldi Discusses the Importance of Earnings Plus Much More

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Dave

0:00

All right, folks, welcome to Investing for Beginners podcast today we have our good friend Brian Feroldi back. Brian is a wizard at Twitter as well as YouTube. He's really smart guy he's a lot of fun to talk to. And he really brings the energy. So we're going to talk about stocks and all kinds of other fun stuff today. So, Brian, thank you for coming. And joining us again, for the show.

This is the third time so you are rapidly ascending the list as one of our all time great list guests to have on the show. And we really enjoy having you here. We appreciate you taking the time to come talk to us. So I thought maybe we could start off talking about some great tweets that you had recently, that I've really enjoyed. And one was, you talked about the six free sources of earnings, and how to listen to earnings. He talked about the importance of those and everything. And so maybe I thought we could kind of start off by talking about that, because we're kind of in the midst of earnings season.

Brian

0:51

Hi, Dave. Hi, Andrew. Thank you guys so much for having me back. Love to be the third time guest here hope to get more appearances in the future. Yes, so we are in the middle of a pretty hectic earnings season period right now. And if you invest individual companies, the way that I do, it's really important to keep tabs on the companies that you're owning. And investing in, there are a huge number of tools out there that investors can use to watch company earnings.

And they make it really, really simple to do. So to your point, I recently had a tweet storm where I kind of pointed out a couple of my go to Resources. And the cool thing is basically all of these are free in some way to use. So one that I've become really impressed with recently is an app called quarter, that's qu A R T r, what that is, is an aggregator of like earnings calls from 1000s of publicly traded companies. And they also have analyst estimates on there, they have transcripts on there. But the really cool thing about them is that you can one listen to them on the go. But two, you can fast forward calls, you can rewind calls, you can like skip ahead, you can 2x Speed calls. So it basically makes listening to an earnings call, as easy as it is to listen to a podcast. So for some companies that I follow, not all I find it's a lot of it's really important to actually listen to the call, as opposed to just reading the transcript from it. So that's a great resource to go through there.

Another one that I use pretty heavily to get actual earnings, information and data. And it's probably the best layout that I've seen online is a company called ticker, that's T i k are they have years of financial data, they have transcripts of earnings calls, and more what I really like about them, because when you're looking at an income statement, for example, they standardize it, and they calculate all the margins and all the growth rates for you right in the app. So if you've ever reviewed a few different company's income statements before, there's no standardization to it at all, some of them calculate margins for you.

Others don't some of them show the growth rate year over year, others don't. So by using an aggregator like ticker makes it really easy to see all those numbers, growth rates and margins. And the third one I'll call out is Seeking Alpha, they probably have the best data that I've seen on coming up with earnings estimates, as well as both short term and long term earnings history histories for companies. So those three tools right there will get you 95% of the way there.

Dave

3:22

Yeah, those are awesome. I'm a huge fan of quarter, I literally probably use it almost every single day. It's invaluable. And for those of us who have been doing this for a long time, you know, the dinosaurs, it's amazing how far this technology has come. You know, even just a few years a few years ago, trying to listen to earnings calls was kind of a tedious task. And now it's as easy as like you said, listening to a podcast, it's amazing. And most important thing

Brian

3:47

is, you know, all earnings calls have that standard like language upfront with a reading like a legal disclosure, it's nice to just skip forward to that interested, just skip right through the q&a, if that's what you're looking for.

Or just even if you're ever doing them on your phone, sometimes you have to go to the company's investor relations webpage and then pick through the events and then play it and register. You just skip all that nonsense with quarter.

Dave

4:10

Yeah, it's awesome. And they recently started doing live earnings calls as well, which is fun. But if you're used to listening to them at two times speed, they seem like they're talking in mud because they're so slow. And you can't also can't forecast forward, obviously. But yeah, those are great apps I was the one that I liked the most is Stratusphere. Braden Dennis is a friend of ours.

We love his website. And we use that that all the time. That's a great one that I would guess I would add to your list and everything but so why why the importance of earnings? Why should investors especially newer investors, pay attention to earnings? Well,

Brian

4:41

the reason that you are investing in a company is to hopefully have that company produce higher revenue, higher profits over time, and that will translate into shareholder value. But businesses are not static things businesses are always changing and the price we pay for investing in individual stocks As the need to perpetually keep up with what's happening with companies, in today's date, it's never been easier to get, quote unquote, information on a company.

And there are articles that are put out all the time about opinion pieces on companies. If that's what you look at, it's very easy to see some of that information and draw the wrong conclusions. I think that that a whole bunch of that information that's out there is essentially just pure noise. And people confuse it as signal. When I think about the actual earnings releases that come out of companies and the transcripts from calls from management. That to me is the purest form of signal that there is.

Dave

5:35

Yeah, I totally agree. quite dangerous. I'm sorry, it looked like he did. Yeah, I would totally agree with that. And I think one of the things that I guess a question that pops into my head when you're when you're talking about that, like do you follow when you're looking at earnings calls and trying to think of a new investor?

Would you focus mainly on the companies that you own currently? Or do you focus on the companies you want to own? Or do you both,

Brian

5:58

so I own about 70 stocks, so that is plenty to keep up with there right now. So I am intensely focused on the companies that I own very rarely do I look at the earnings or pay that much attention to the earnings of a company that I don't own. Now, I saw your face kind of shook in shock there when I said the number of stocks that I own. So I guess it requires some further explanation. A lot of my capital is actually fairly concentrated into my top 10 Holdings.

That's not because I set out and picked those companies to be my top holdings. It's because I've bought those stocks so long ago, and those stocks did so well, that they essentially became my top holdings. And not all companies require the same level of scrutiny when I'm looking at their earnings as others. For example, a company that I've owned for almost a decade now is MasterCard, it's one of my top holdings, it is just a cash creation machine. And it has a fantastic operating history. I know that business have investing in there for so long that when I look at their earnings report, I basically want to know, how did revenue grow?

Did profits grow? And were buybacks and dividends? There? The answer is almost always yes, yes, yes. And for me, I can look at that pretty quickly and say see it in 90 days, the like reviewing the earnings on that story is not that hard. So that is a really quick thing to do. On the other side of the spectrum, I own some companies that are very small market caps, where the range of potential outcomes just could not be wider, and literally every 90 days significantly impacts what's going to happen with that business. So for those companies, I go over their earnings report with a much finer tooth comb.

And the other thing that I do to protect myself is I also keep my position sizes in check. If I get interested in a stock and I buy a very small startup position in that company, and that company goes down, my overall net worth is not really impacted that much. So when it comes to where do I focus my attention, I tend to focus on the companies that I have the most capital in, and the companies that require most maintenance. Some of them, as I said before, I can just quickly glance at or I don't even have to look at the numbers quarterly.

Andrew

8:04

I'm gonna come in like a wrecking ball here. Just because I'm like, curious, and I like to do sometimes, like hypotheticals. So is there like an upper limit? You mentioned position sizes, and you mentioned like a top 10 concentration? Is there some upper limit to how concentrated you would let a position get, or, you know, if MasterCard becomes like 60% of your portfolio without making you nervous at all?

Brian

8:29

Well, that's what you call a high quality problem was to if that was to happen, right? Because that would mean that MasterCard have to be up so much that I would have to make decisions. Broadly speaking, the way that I approached that is I asked myself at what number would accompany caused me to lose sleep at night, if I had to have one position that was just like crazy outsize, a company like MasterCard would be one of my top choices, just because I think that that company is so entrenched, so profitable, and that if it was to get disrupted, that process would play out over a period of years or even decades, I can't envision something coming along, aside from the government saying this business is illegal, that would really impact the thesis for that company in a way.

So I could personally get comfortable with MasterCard being something like 15, or even 20% of my portfolio if it grew into that number. Or conversely, if I took a 1% position in a really small, dynamic, fast growing super risky company, I got lucky in that company like 20 bags over the course of a year, that would be a completely different situation where I wouldn't want that much of my net worth into a hyper, a really risky company. So I'd be more willing to trim that. And I would keep that bound like upper limit of say 10% or so. However, the thing that I think a lot of people lose when they talk purely in percentages is it's easy for us to talk with percentages because we can relate portfolios together.

But the absolute dollar value also really, really matters. If my entire portfolio was let's just A $10,000 I'd be comfortable having 50% of it in one stock, because that's $5,000. Conversely, if I had a portfolio of $10 million, right, a 10% position would be a million dollars in one company. So when it comes to figuring out what the upper limit would be, I would factor in both things.

Dave

10:19

Yeah, that makes sense. Yeah, it is. It makes a lot of sense. I guess it shows what kind of stomach Warren Buffett has, when he has apple as that size of position is portfolio, right?

Brian

10:29

Yes. I know. And again, he's apple became that monstrous position? Yes, he put a ton of capital into it. But I think it's like less what was that four bagger for him or something or five bagger for him? So you really nailed that the timing on Apple really? Well, but yeah, obviously, he's very comfortable with much higher levels of concentration than I am.

Dave

10:47

Yeah. Yeah, for sure. Yeah. So I guess the question I have to about portfolios, what are your thoughts on this idea of a starter position, so to speak, let's say they are interested in a company that pick, you know, company B, and you want to start investing in a company, but you don't want to take a big position, but you also don't know that much about the company. And so what are your thoughts on that kind of idea, putting, you know, less than half of like less than a percent in you know, of your portfolio in a company, they force yourself having skin in the game to start learning more about the company? What are your thoughts on that?

Brian

11:20

Yeah, it totally depends on the size and maturity scale of the business and risk of the business, or at least my perception of the business at the time of an entry. Let me give you an example. I don't own shares in Microsoft directly. Okay, if I was to decide I want to open up a startup position in Microsoft, I mean, that's like, what a $2 trillion company that cranks out free cash flow, it's got a ridiculously dependable business, I would have no problem opening up a startup position at like 3%. In Microsoft, in my case, just because it's so that it's a very low risk of business. Or conversely, I was opening up a startup position in a sub $1 billion high growth, money losing business, some of which I do own, I keep my startup position size is much smaller, for two reasons.

One, I want to cap my downside risk, but the range of potential outcomes for that business are just so incredibly wide. When you think about Microsoft, what is like the best case scenario for Microsoft, or at least the most likely scenario for Microsoft, I think if you buy Microsoft, you can expect eight to 15% Return going forward, something like that would be in the realm of possibility, I don't think you're gonna get a 10 bagger on Microsoft, in the next five years, 10 years, or maybe even 20 years, just the range of potential outcomes for investors are much more skewed.

But if you bought a profit or revenue list biotech, or hyper growth stock that was growing 100% per year, but had a really small market cap, the range of potential outcomes are you could make 50 extra money, or you could lose 99.9% of your capital. But when I make my first buy, as you said, get some skin in the game, I typically allocate less than 1% of my portfolio to that company, because I'm still getting to know that business. But I've seen enough that I'm interested in making a small investment. And then I'm happy to add to that investment over time, as I see the thesis playing out as the risk goes down. And as I get to know that company better,

Andrew

13:16

I guess, one example of that would be, if it's unprofitable, becomes profitable, all of a sudden, the risks profile has changed. So maybe that changes the way you're doing portfolio allocation. And I get the sense that there's your idea of portfolio allocation in general, isn't some static thing, kind of like the businesses you're looking at? Sounds to me, like, those allegations can be a little bit fluid, depending on whatever the situation is. Is that fair?

Brian

13:41

Yeah, I think that that's completely fair. And the other thing that I've learned the hard way, is what I think is going to happen. And what actually happens are usually two completely different two completely different things. I mean, in the past, I have been historically 100%, certain convinced myself that this company is going up, like I have told myself that about businesses many times, and many times on those businesses that I was certain of I lost 50 plus percent of my capital.

So when that happens to you enough times, it's much you get humbled really fast with investing. And because of that one, I diversify more widely than I did before. And then two, I keep my position sizing, my initial position sizing smaller, and I allow companies to earn a higher allocation in my portfolio through their own business execution, as opposed to me putting more and

Dave

14:33

more capital into them. That's brilliant. Where did you learn that concept?

Brian

14:36

school of hard knocks? I would say a combination of trial and error with my own capital, and then learning from other investors who are more experienced than I have who have seen that happen themselves.

Andrew

14:49

What's that money that saying? I think it's like don't throw good money after bad. And it kind of goes to one of the biases and I don't know if we touched on this recently, Dave, but we had an episode recently where we talked about different common investor biases. So if you're a new investor, you might find that really useful in helping yourself kind of learn how to handle yourself in the market and find better results.

One of those being the sunk cost fallacy where you feel like if I have a stock, and I've put $1,000 into it, well, you know, I'm in it for the long haul now. And that's like, it's hard for investors to remove themselves from all I'm just going to wait for this to get back to even or I'm going to double down because it's kind of a hit to your ego if you're wrong. And so it's sometimes kind of easier to just throw money, or more money at the problem in the hope that it goes up. Have you done that before where you kind of threw good money after a bad situation? And looking in hindsight, it was kind of like a sunk cost kind of deal?

Brian

15:47

Absolutely. If you when you learn about the dozens of investing biases that are out there, I mean, I read through those, and I'm like, Yep, I've done that. Yep, I've done that. Yep, I've done. I've done that. And so many of them, you are unaware of until somebody else points them out. And it's like, wow, yes, that just goes. So that just lines up so perfectly. With my natural human psychology, investing is hard. Investing is really, really, really hard. One thing that makes investing super hard is that there is often a multi year gap between you taking an action and you learning about if that action was the right one or the wrong one. And in between that timeframe, you get tons of false signals and false information.

And I would say that, particularly the last three years have been the weirdest investing gears that I've ever seen. I mean, think back to 2020, which is when a lot of people started investing for the first time. What did people learn in 2020, buy anything, and you're immediately rewarded. And by the way, the riskier the thing you bought, the higher the reward was in 2020, right? Everything went went straight up. But crypto and profitless companies and Spax, those went up the fastest 2021 to 2022, exact opposite of that anything you buy, you are losing money on and the riskier the thing you buy, the faster that you lose money on. So it's natural for people to look back with what happened and say, Oh, I bought zoom in 2020.

And now I'm down 70%. That was a terrible decision. Well, the truth is, we don't know if that is a terrible decision yet, because the pandemic has so introduced so much volatility into not only the businesses themselves, but the valuations of the companies themselves. Buying zoom and 2020 might prove to be a really smart decision five years from now, but we won't know the answer. All's we know is that over the last 18 months or two years, it's felt horrible to own that company.

Andrew

17:49

How do you personally like, get over that? Because it's hard. I mean, it's I think he asked anybody, there'll be like, this is a really hard question to answer. But how do you differentiate between signal I made a good decision versus noise. The markets telling me I made a bad decision, but it might actually be a good decision. How do you counterbalance that idea?

Brian

18:10

The way I do that is by looking at the companies themselves and looking at the earnings reports of the company. So again, let's just stick on Zoom for a second, their zoom stock is last I checked down like 70% from its peak. If that was your only information, what would you assume was happening with zooms earnings reports, you would assume that revenue is going down, margins are collapsing and profits are going down? I think it would surprise a lot of people to realize that zooms, revenue is up over the last two years. Zoom is literally a stronger business today than it was two years ago. But the since the stock price is down so much the narrative is easy to look at and to be like oh zoom, the business must be falling apart.

In reality, Zoom was never really designed for the consumer market, like me and you it was always built for the enterprise market. And the company continues to make progress at penetrating the enterprise market, rolling out new products and growing its revenue stream in there. The problem is they also had this massive unexpected revenue boom from the consumer market that is currently unwinding and that unwinding is masking the core growth of the business.

So how do you deal with that as an investor? One you have to understand that's how markets work. That is just how markets work. If you're going to invest in individual stocks, you have to be willing to put up with huge swings in prices and that is just the price of admission. Take any of the greatest stocks of all time. Any of them every single one at least once but likely multiple times has fallen 50% or more peak to trough every single one. Like we're talking about like Coca Cola, Procter and Gamble Burke Sure, Hathaway the biggest bust, boring companies ever have all fallen 50% peak to trough, if you just don't have the stomach for that, don't invest in individual stocks, just keep your money in safer securities.

And there's nothing wrong with not having the stomach for that. The thing that you get into trouble with is when you tell yourself that you have the stomach for that when you're in a bull market, and then you only realize you don't have the stomach for that when a bear market finally shows up.

Andrew

20:28

I think you see that too with the s&p 500. In general, I mean, you would think, Oh, a basket of 500 stocks, I must be really safe. But no, if you can't stomach even the s&p 500 going down, you should not be in the stock market. Yeah, that

Brian

20:41

is absolutely correct. I mean, I'm pulling up a chart right now of the s&p 500. I mean, I remember investing in the markets in 2008. And peak to trough the s&p 500, fell 57%, from 2007 to 2009. I mean, that is the entire market falling 57%, over like an 18 month period. And that is owning 500 of the biggest, most profitable best businesses in the world, a very diversified basket. So yeah, this is why stock investing is not for everybody.

Dave

21:11

That's so true. I think I'd like to kind of segue to the Buffett checklists, because I think based on what we're talking about, I think talking about maybe some of the ways that he works for companies might be a good way to help investors kind of understand the importance of fundamentals and kind of getting away from some of the story stuff is what are your thoughts on you created this little chart that kind of shows a checklist, that idea is based on how Warren Buffett picks his companies? Can we kind of talk a little bit about that? Sure.

Brian

21:39

Buffett, if you read through Buffett's letters, he's very upfront about his investing style, what he looks for. And by and large, when I think about what Warren Buffett is trying to do, he is essentially trying to comb through the market for predictable, profitable wide, most businesses that he thinks still have a bright future ahead, then he's trying to value those businesses conservatively, then he's trying to buy those businesses at a discount to his idea of intrinsic value.

That is the Buffett style of investing. And doing that is not easy, for one reason, because it requires long periods of inactivity, followed by short bursts of hyper activity. That's easy to say to do, in hindsight, really hard to do that in real time. So yeah, I found a checklist online, it just ticks off a couple of the tenants that Buffett goes through, before he makes an investment. I'm just a huge believer in checklists, when you're making investment decisions, because they can really help you from makes you think through all aspects of a business.

So there are nine on here, I'll just tick them off really fast. Number one, is the business understandable, classic Buffett thing, right? Do you know the business? And can you explain it? And he's very famous for saying, If I can't understand it pass, just move on to the next idea. A number two, do you know how the money is made? AKA Do you understand the business model? Number three, does the business have a consistent operating history, the consistent part there is really key.

He doesn't want to buy businesses that boom that print money in good times and then lose money in bad times. He wants to own things that make money in all market cycles. Number four, does the company have favorable long term prospects? Number five, is there a big moat around the business? Number six? Is it a business that even a dummy could make money in I can add the old right? You want a business so good that even an idiot running it will still do well.

Number seven, can accompany can current operations be maintained without too much? needing to be spent, aka other returns on capital are really good. Number eight, can the company is the company free to adjust prices to inflation? So it's not regulated from a pricing perspective?

And number nine, interestingly, have you read the annual reports of its main competitors to find out what its competitors think of the company. And I love the simplicity of it. And it's just a consistent process applied over and over again. It's really what makes Buffett Buffett Yeah, that's

Dave

24:08

that's right on the money. I love the idea of the last one of reading competitors. I think so many times. We as investors focus so much on what PayPal is doing, that we don't think about what the other companies in their sector are doing. And that that can be really important not only to that, but sometimes you can find a better business than PayPal by looking at competitors

Brian

24:26

for certain. And again, I think number nine is a pretty in depth thing. That level of depth and knowledge about the industry totally makes sense. If you're going to do what Buffett does, which again, when Buffett finds an idea, he pounces on it, and he's not afraid to put billions upon billions of dollars into that idea at one time. So he needs to have a extremely high certainty about the near term prospects of that business before he makes an investment. So I like how

Andrew

24:50

you're giving a lot of context for people because, you know, there's a lot of different beginner mistakes that we can make. And one of those would be to follow up Your favorite investor blindly without understanding the context of actually how they invest. And if that's going to work for you. I mean, one of the examples I like, like, if you listen to the podcast at all, I talked about Peter Lynch all the time, I feel like his books are so great for just getting your feet wet in the stock market.

But am I going to invest with Peter Lynch? Or am I gonna invest like Peter Lynch did? Well, by the way, he turned over his portfolio, something like 150% per year, which means in any given year, he's selling, like more positions, and he's buying and continuing to just recycle those positions. So in the case of buffet, do you think for, I guess, a couple of ways you could think about it? Do you think the average person should try to emulate his approach? And I guess, if not, why? Or if yes, why

Brian

25:49

I think the first thing that people should do before they make any investment is ask themselves an important question that many people just skip over, which is, when do I need the money for this investment, a lot of people just skip to, I heard fill in the blank investment or cryptocurrency was good, and to them good means is going to go up in the next three months. And then they buy that investment with doing very little or some research. If you're going to be investing in the stock market, you shouldn't have any capital in the stock market that you need for your life in the next five years, or perhaps even longer.

So step one is asking yourself, when do I expect when do I need this company to pay off, if it's for a downpayment on a house in 18 months from now, don't put that money in stock market, you might do well, but you're just taking on way too much risk that stock market valuations could fall or that investment might play out. And then suddenly, your life is severely impacted, because you can't buy the house that you want.

So first question to ask is, when do you need the money? If the answer is five plus years from now, then you could think about investing in the stock market. And the next thing you need to do is define what type of investments do you want, Warren Buffett is managing hundreds of billions of dollars. And he is very content to buy highly predictable dividend paying companies at low valuations so that he can earn a modest return, let's call it eight to 15%, something like there with a high degree of certainty and hold those businesses for a long period of time.

That is his investing style. If you're going to invest like that invest like a value investor, and you're going after those kind of returns, it makes total sense to copy exactly what he is doing. If you're the type of investor that is interested in high growth businesses, and you're willing to take on a lot more risk in exchange for the potential at much higher returns, or you're looking for companies that can multiply your capital many times over, then copying Buffett and focusing on valuation is the wrong thing to do.

You're just using a completely different set of tools and mindsets to buy stocks that Warren Buffett isn't interested in or will never own at all. So I think Buffett is worth studying no matter what type of investor you are. But you have to pick and choose which lessons of his you apply, depending on what type of investor you are.

Dave

28:15

So how do people decide what kind of investor they are?

Brian

28:19

Well, you can do that. Right? It's easy to be to tell yourself, you're one type of investor, but all investing styles have positives and negatives to you. And if you're going to pick an investing style, you can't have the positives without also having the negatives that come along with that investing style. If you want to be I myself am primarily a high growth, high quality business focused investors, I'm personally not interested in dividends, I'm willing to give up dividends, I'm willing to give up short term volatility and valuation in exchange for higher business growth.

So the trade off that I'm wanting to make with my investing style is I want the potential to earn multibagger returns in exchange for dealing with higher levels of volatility and a higher failure rate. Conversely, I know other investors that are just after dividends, the only thing they want is income from their investments today and they're looking at companies that have 345 percent dividend yields, if that's what you're after near term income, know that the thing that you're giving up to get there is growth potential.

A lot of companies that have very high dividend yields have very meager or perhaps even negative growth potential. So the way that you figure out what type of investor you are is you, you make a guess, you apply that investing style. And then once you have to pay the consequences of that investment style, ask yourself honestly as best you can, am I really this type of investor, but the only way to figure that out is to put capital on the line, feel the consequences of your decisions and reflect

Andrew

29:57

Yeah, it's such a hard thing to figure out and especially because Again, businesses are dynamic, and so is the market. So depending on what time period you are waiting in to the stock market, a certain style could do a lot better than a different style. And it's like, it doesn't mean one style is better than the other. It just means at that particular period of time the market rewarded this or that.

So it does make it really, really hard. And, you know, I struggled to think about how can you answer that question, somebody's like, what's your risk tolerance? And it's like, well, I don't want to take risks. But I also want higher return. It's, it's really hard to kind of figure out for people when they're first starting out, but I like that approach that you're talking about, it doesn't need to, the last thing you probably want to do is be so rigid to say, I'm just going to stay this way for the rest of my investing life, I don't think there's going to be much growth in that.

Brian

30:48

I want to eat dessert every day and not gain weight. But that's not how it works.

Dave

30:55

Know I want to eat pizza every day. But that's not the way it works.

Brian

30:59

And be healthy. But that's not how it

Dave

31:01

works, right? No, no,

Andrew

31:03

no. Where does learning financial statements happen? In your opinion? We're kind of talking, you know, you have the more conservative lower growth businesses you have the more higher range of outcomes, higher growth businesses, should investors learn financial statements, whether they're looking at either or what's your take on kind of picking up financial statements and trying to figure those out?

Brian

31:28

Yeah, accounting can be a really dry and boring topic. But if you're going to invest in individual stocks, it's to me, it's not even negotiable, you must understand counting, and you must understand the nuances of accounting, accounting is not a perfectly straightforward thing. There is a lot of interpretation, and a lot of art that goes into not only creating financial statements, but also reading and interpreting financial statements.

Warren Buffett has this great quote, which I'm going to buffer, which I'm gonna butcher, but it's something like accounting is the language of business, if you aren't willing to learn the language of business, you have no business picking individual stocks, yourself. And to me, that's true. If you're a growth investor, if you're a dividend investor, if you're a value investor, if you're a venture capitalist doesn't matter what type of investor you are, if you're going to buy individual stocks, or invest in real estate or private businesses, you have to learn how accounting works,

Dave

32:27

it tells a story. And it's our job to learn how to read that language so we can understand the story. That's what I love about what you do with your Twitter feed and what you're doing with your, your course. And everything is you're trying to help people understand the language of that. Can you talk a little bit about your course, because I think that's something that I think is very important for people to know.

Brian

32:44

Sure. So me and my business partners, who are both named Brian have, by the way created a live cohort based course where over the course we're over a period of three weeks, we walk new investors through the three financial statements. So the income statement, the balance sheet, and the cash flow statement, and we show not only the layouts of them, and what the terms mean, but how a business goes about to generate them, and importantly, how investors should interpret them. When you are first starting out investing, learning to read financial statements seems overwhelming. I mean, there are all these terms on there.

And it looks like there's numbers on there, and they're up and down. The good news is accounting isn't hard. Once it's explained to you a well, but sitting down and taking the time to actually learn them can take a bit of time. So what's cool is today, it's never been easier to learn accounting on your own for free. There are tons of wonderful resources online, like YouTube videos, podcasts, you can listen to where you can learn accounting in extreme detail if you want to. What we've discovered is that there's a big group of people out there who wants to learn in a more formalized classroom setting so that way, they can ask questions and have a homework and practice.

And that's kind of what we that's kind of what we do in our course. So you can learn all the information that we teach is available online for free. But there are some people that do want to learn in a more in an actual classroom setting a virtual classroom setting with a community and that's what we created.

Dave

34:17

And I guarantee based on just the energy that Brian is bringing today, it's not going to be the same boring thing that I had to sit through when I was in college. I guarantee you that that was that was put the head on the table, take a nap kind of education. So I know that what the three Brian's are bringing is way different.

The one of the things that I really like about you, Brian, is you come at everything from a teacher's mindset, like you want to help people and you want to help teach people Patrick O'Shaughnessy had this fantastic question on Twitter a while back, that we kind of posed to each other and we're gonna, I'd like to pose it to you too. So if you could pick through any three companies to help teach finance, excluding Berkshire Hathaway, who would those three be?

Brian

34:56

That's a really interesting question that you came up with and I did do some time to thinking about it. So the three that I came up with were AutoZone, salesforce.com, and Tesla. And I'll tell you why I pick those. So first, I would start with AutoZone. Because Autozone is a very simple business, right? They have stores, you go to their stores, and they sell auto parts and their financial statements are very clean and easy to read. So it's just an easy business to interpret. But what's fascinating about AutoZone, from a studying perspective is here you have a modest motor business, a decent brand name that so many people know. But this company has plowed a tremendous amount of its profits into stock buybacks.

And this is like a textbook case study of how to do stock buybacks the right way. Autozone stock has been a fabulous, fabulous long term investment, not only because the company is a good operator of the stores, but because its management team is has done wonders with the shareholder capital to reduce the share, count, and really drive the earnings per share higher through stock buybacks. So I think it's a wonderful business to study because it's simple, easy to understand. And it shows that management choices can lead to shareholder value when done the right way. Another one that's more interesting would be salesforce.com, which is a good case study in kind of modern businesses.

Not only is it a software company with high margins, not only does have a disruptive product, but it has made good uses of acquisitions for the last 2020 years. And it's done. So well acquiring tech companies for very high valuations. And normally that is a recipe for disaster in the public markets because making acquisitions is hard. And making acquisitions that work when you're paying big premiums is really hard, yet salesforce.com has actually done. So while creating a lot of shareholder value along the way, and in many ways is like the exact opposite of AutoZone. It's a complex business, its financials are very confusing. It has diluted shareholders like crazy over the last 20 years. And yet investors have done very well from owning its stock. So it's like an exact opposite of AutoZone. And the third one was Tesla, because Tesla has broken so many business rules.

And it's such a mess. I've heard it to call a mutant company before. And I think there's no better way to describe a company. But Tesla is a really good case study of the importance of the CEO telling the market a story. And that story ending up creating huge amounts of shareholder value. By the way, there's nothing wrong with telling a story about a company, every company out there tells a story.

But I would say that no company out there has done a better job of creating a narrative and using that narrative to raise capital and potentially change the world and Tesla.

Andrew

37:55

I'm just waiting for you, Brian. I mean, pretty big Twitter account. So if you saw Elon Musk, their marketing budget for Tesla is basically his Twitter account. Do you make your own right?

Brian

38:07

Yeah. Maybe that'd be my next X. Yeah. could create a company off of my Twitter account? Yeah. Now we all have the playbook just do exactly what you want is done over the last 20 years. For better or worse. I'm not sure I could take that much hate at with my psychology could take the amount of hate the news gotten though?

Dave

38:24

Yeah, he's definitely got thick skin for sure.

Brian

38:27

Oh, for sure. I would love to hear Dave's three companies and his wise.

Dave

38:31

Oh, gosh. All right. So I went with Visa went with GE and I went with Amazon. So visa i The reason I chose visa was because it was a disruptor in its time, and it changed. Basically how people operate on a day to day basis, because of the way the company what they do, the the way we spend our money is vastly different now 50 years later, because of visa and it continues to evolve. Their financials are very, very clean, just like AutoZone. And it's super easy to understand. Once you understand the business model, it doesn't change and they haven't had to change in 40 or 50 years, and hopefully not for another 40 or 50 years because I do own a company.

So probably just put a jinx on it. But that's, you know what, so that's why I like that GE, I think is a perfect example of a company going wrong and how you can see a company go wrong over a long period of time, from bad management to bad decisions to taking on too much debt to train to change what the business was. And and now there's trying to all you know, unwind all that and go back and who knows whether they'll get it be able to get it done. It's a great I think example of people can't see my hand but it's a great example of the evolution of business cycle from a young company to a mature company to a declining company. You can kind of see all those patterns through its history of the financials.

So that's why I chose GE and then Amazon I think it's just a great example of kind of like Tesla where Jeff Bezos had an idea and a story that he wanted to tell. And it was all about innovation and free cash flow and, and customer service. And just those basically three simple ideas, where he was so fanatical about them, he created this monster that is Amazon. And now it's become such a dominant force in the markets now that anytime they threatened to go into a business, all of a sudden that industry craters for a couple of weeks until people realize that, Oh, hey, maybe they aren't going to disrupt the grocery market. But, you know, it's just that they've developed such a reputation for that. I just think it's a great case study of how a CEO with a simple couple of simple ideas and execution can really disrupt the markets and really create a powerhouse. I

Brian

40:44

love that. Yeah, Amazon, a total another mutant company, right. Yeah. What it's done over the last 20 years.

Dave

40:49

Yeah. Yeah, for sure. Andrew, what were yours?

Andrew

40:51

Yeah, I mean, I did Circuit City for the bankruptcy, just to show growth doesn't mean success. I did Coca Cola as an idea of a business doesn't need to reinvent the wheel. And it could be a very old idea and still do very, very well. And then Tesla as the power of capitalism, and how if you're able to raise money, and dilute shares, and just raise a lot of capital, and what can be done in the debt market, and how that's created, that has changed our world really has, I don't think they'll ever go away.

And that's, that's I think, what's exciting about investing in the stock market, is there's people involved in there creating really amazing things. And a lot of it does make our world for the better. Love it. So Brian, we really appreciate you coming on. You mentioned your course. What is that called? And how can people learn more about it?

Brian

41:40

Sure. Well, thank you again for having me hope to be back for for Pete sometime soon. Of course, if you're interested is called financial statements, explained simply, you can get that by signing up for my newsletter, which is just at Brian for all the.com. Each week, we email out once a week, I would do a short email where we talk about an investing lesson that we've learned, so it's free to sign up. So that's just Brian from the.com. You're also

Dave

42:03

on Twitter and YouTube as well. So talk about that. Where can they find you at Twitter and YouTube? Sure.

Brian

42:08

Both my name is Brian for all the br i n fer. LL di Yeah, I'm on Twitter. Twitter's the platform I am the most active on and more recently become really active on LinkedIn of all places. So you can find me there too.

Dave

42:18

Awesome. Awesome. Well, again, we do thank you very much for the three peat and we enjoyed talking to you today. You're a great teacher, and you're a great resource for people that want to learn more about the stock market and other things as well. So without any further ado, I'm gonna go ahead and sign us off you guys go out there and invest with a margin of safety, emphasis on the safety and have a great week and we'll talk to you next week.