The Australian Finance Podcast Episode Transcript

Episode: 5 Step Share Investing Checklist for DIY Analysts
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Speakers: Kate Campbell & Owen Raszkiewicz
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Episode transcript:

Owen:
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Owen:
Kate Campbell from the Australian Finance Podcast. How you going?

Kate:
Good, Owen.

Owen:
That's good. We've got a bit of an intro here. Welcome to shares month on the Australian Finance Podcast. This month is all about how to analyse stocks or companies like a pro investment analyst.

Kate:
A highly requested series. So over the next weeks, we're going to start with the basics. So we're going to introduce you to a five step investing checklist just to give you a foundation for looking at new companies, and then we're going to apply that checklist to a company that you all know and love, the Walt Disney company, listed on the New York Stock Exchange under the ticker code DIS. And then the episode after that is going to be more of an advanced analysis with some of our analysts from the team at Rask Invest. And then finally, we're going to answer all your questions on a special Q&A episode and have a discussion covering a hypothetical $10,000 portfolio where we're all going to get given some hypothetical dollars to invest, four of us. So you'll hear from a few of the analysts from Rask Invest over this series, five-part series. We'll talk about what companies they would put into their hypothetical portfolio today.

Owen:
Yep. The rules, we've already had questions on this on the Facebook group. People have said, just tell me when episode five goes live. But no, basically we're going to have some rules around the $10,000 hypothetical portfolio, kind of just making this up on the spot, but it will be in effect each of the analysts and Kate and myself. So there's two analysts and Kate and myself. We have two and a half thousand hypothetical dollars each and we can't suggest more than three positions each. You can do one. So it might be one position, but you can do three if you want to as well. So it's going to be heaps of fun. And basically we're going to just try and answer all of your questions on share investing.

Owen:
This is what we do at Rask. This is what I love to do. This is what our team loves to do. So we'd love questions. The thing is, when you hear this episode, you're hearing it right now, you need to send us your questions in advance. The way you would do that is you would go into the Facebook group and use the #SharesMonth, or you would email us the standard way, podcast@rask.com.au, using all caps preferably, Shares Month. Because we get so many wonderful questions and comments and feedback from y'all, we need to know which questions and topics that you want to hear about for Shares Month in Shares Month.

Kate:
Yeah. And if you send the questions to us, make sure you're happy for them to be read out loud. We will anonymize them, but read out loud on the podcast.

Owen:
Yeah, because we're going to try and answer as many as we can probably in about an hour with the four of us. So we want to make it short, sharp, snappy. We want to answer your questions. So Kate, now that that's done, this is the first episode of Shares Month, one of five. What is today all about?

Kate:

Yeah. Today we wanted to introduce you to a basic five-part share investing checklist so that when you're looking at companies, you can actually have a few questions up your sleeve to guide your investigation essentially. Like analysts, they use often a much more complicated checklist than five parts and lots of different tools and techniques, but we have simplified it into sort of five main things you should be looking at. So we'll overview that checklist with you today, and then it'll be applied practically in next week's episode.

Owen:
I should say that these are the five points of a checklist that we follow at Rask, but this is the high level stuff. So this is where it all begins. Then we dive down under each of these five things and ask many, many more questions, which you're going to learn about as we go through the episode, particularly the episode that we do in two weeks, which is the more advanced one. But Kate, I want to just make sure that we're all on the same page. Every Australian Finance Podcast listener, everyone in our group knows exactly the first steps. So can you, without spending too much time on it, can you tell us how do I buy shares and what are the differences between shares and ETFs, because we talk about them so much.

Kate:
Yeah. Awesome. I'd highly recommend if you haven't listened to our earlier episodes, back in the original 10 episodes we did, we did an episode on investing in shares in Australia. There's also an episode on trading versus investing, how to pick and choose ASX ETFs and some various other episodes. I'll put them in the show notes, but go back and listen to those because the aim of this episode is to build on that. But essentially if you want to buy shares in a business, in Australia that's through the Australian Securities Exchange, I always mess that one up, but you'll need to create a brokerage account. We've got plenty of tutorials and resources on our website and Rask Education to do that. But once you create a brokerage account, you can pick a company that you're interested in. What is one of the biggest companies in Australia?

Owen:
Telstra.

Kate:
Yeah. Telstra. And then you can say, "Hey, I want to buy $1,000 of Telstra." And you can just put an order through your brokerage account. You can tell the brokerage account exactly what price you're willing to pay, how many units you want or how much you want to spend. And then you'll just, for a small fee of maybe $10 or $20, the broker will go and execute that trade for you. And then if all goes well, you're the proud owner of some Telstra shares. So you're suddenly the part owner of the entire Telstra business, a very small one but part owner.

Owen:
Yeah. And so, yeah, we've got heaps episodes on this. We've got a beginner shares course on Rask Education. We've got an ETF 101 course, by far our most popular course ever released. Even today, our ETF course, even though it's like well over a year old, still gets more enrollments I feel like than all of our other courses put together each day. So it's fantastic. It's a

great resource. All free. Go to Rask Education, find out about that. Kate, why don't I just start with an easy one for you just quickly before I get to the first point, which is, do you own shares and ETFs or just ETFs or just shares or everything?

Kate:
Yeah. I own a bit of everything. I invest in individual shares, so in individual companies. I also use exchange-traded funds. They're made up of lots of different individual companies. So the exchange-traded fund will buy and sell the shares in the companies on your behalf. One of the ETFs... I own, owns shares in the top 200 Australian companies and I also own ETFs that invest in US companies and emerging markets and things like that. So yeah, I use shares, I use ETFs as part of my portfolio, I use a managed fund.

Owen:
Robo-advice?

Kate:
Yeah. And Robo-advice that uses ETFs to form that portfolio. Investing, you don't have to just pick one option. Probably the only thing I don't have is property.

Owen:
But you're going to get a forest in the future, that's on the cards. Kate wants to buy a forest.

Kate:
But I do own property and infrastructure through one of my ETFs. I know we had a question on REITs recently, so we can answer that in a future Q&A. So today we're just going to specifically focus on shares for this month because we've had so much interest. And we've got the other resources as well. So I'd encourage you, because this episode is going to get a bit more advanced through the series, to go back to our beginners shares course and listen to our previous episodes.

Owen:
Yep. Sure. And you can do some of those courses in less than 60 minutes. I think that's a world record for some people doing the ETF course. Maybe that was before we added some lessons. But yeah, you can do them real quick and you can come back so you can basically spend all of May becoming a guru of investing. And what would be really cool is if you could donate 15 minutes or 30 minutes of your time to learning about share investing for the month and I'd all but guarantee that by the end of the month, you'll know more than almost everyone in your circles. It is that quick that you can get on the track and learn as quickly as you can and you can take in so much in such a short period of time, and you'll have your whole life to benefit from it. Okay. Kate.

Kate:
Without further ado-

Owen:
Without further ado.

Kate:
I think we need to get into the checklist.

Owen:
Checklist, checklist. Okay. There's five parts. Okay. The first one.

Kate:
The first one, Owen, is, what does the company actually do?

Owen:
Yeah. Okay. So this is really basic. Peter Lynch says that owning stocks is like having kids. Don't get involved with more than you can handle. What was really interesting about Peter Lynch is he had at times over a thousand stocks, I believe. So he must've had a lot of kids. But the reality is behind every share, and this is the thing that we're going to talk about a lot, not just me but all the analysts, shares represent something. They are not just random things that go up in your SelfWealth or your CommSec account. They are actual ownership of businesses. Now, short-term traders are different to investors. Investors like me and like you, we see ownership of a company. If you buy one little share of Amazon, then you own a tiny, tiny, little bit of Amazon, the actual company, and you benefit when it makes more profit.

Owen:
But if you're a trader, you don't really care what you're buying. You just want to make sure that it goes up. It's a bit of a different thing. We're investors because we believe that works. So what does the company do? The easiest way you can find out what it does is just Google the company. Literally just like, what does Tesla do? And then you can find heaps and heaps of different resources. But if you're stuck, a simple step is go to the About Us page and start from the top and work down. Okay, it makes cars. Okay, it makes batteries. Okay, it does the Powerwall. Okay. Then what are all those things? How do they make them? Where do they make them? And you can find out all that on the website, on YouTube.

Owen:
And most importantly, if you, this is an inside nudge, I know Cathryn and our analysts are going to talk about this next week, but there are two places you can go. The first is if you're looking at an Australian company, just go into the brokerage account or go to the company's investor relations section of its website, find the annual report. Obviously being annual, it's issued once a year. Look at the first, I don't know, say five to 10 pages. Read through them. You'll find the director's reports, which effectively are the director's overview of the company for the year.

Owen:
One thing I like to do is, before I do that, actually I just go to YouTube and try and find some product demonstration videos. So actually understand the product before they start talking

about it in annual report. The second place is if you're investing in US companies. So there's Australian companies and Australian stock exchange and there's US companies on the US Stock Exchanges. You don't have to be a US company to be on the US Stock Exchange. For example, like Unilever would be on there.

Owen:
But what you do is in the US they don't issue what's called an annual report. Even though it is an annual report, they call it a 10K. They use a combination of numbers and letters, 10K. Now, I was saying to the guys yesterday that a 10K in the US from the US stock companies is so much better than the annual report that we get in Australia because the first 30 pages of a 10K in the US, they have to tell you exactly who the competitors are, what the risks are, what the industry is, like the threats that they faced during the year. They have to tell you all that legally. So you can go in there and the first 30 pages tell you everything, literally everything you should know before you buy shares.

Owen:
Cathryn's going to talk about circle of competence next week, but basically one of my first investments was NAB because I knew the brand because I've walked past it every day. One of my later investments was a company called QBE, which does insurance. One of them after that was Rio Tinto, which does iron ore. I thought I knew a lot about all those businesses, but I didn't. The circle of competence is about knowing what you know and trying to stick to the industries and the companies that you know well.

Kate:
Yeah. If you work in a specific industry, it might give you a unique edge for sort of understanding the businesses in that industry a little bit better than someone off the street would.

Owen:
Yeah, exactly. And so it's just one of those things. Some of the best investors are people who only invest in the industry or who gets shares in the company they work for and they realise that this is a really good company that's growing fast. I'm going to see if I can get shares in the company that I work for. It's called an equity programme, and they hold onto those shares for as long as they work for the company and see it grow. And if all we did as investors was find out what it does and make sure that people like the product, then we'd find that our investing would be so much.

Owen:
There's a thing from the US, I don't want to make this too complicated but there's a thing from the US that effectively says if you can make a product that's 10 times better or 10 times cheaper, your company's almost guaranteed to be a success. You have to do it sustainably. You can't just be like, that's Bitcoin, it's better than everything else that's ever been invented. You actually have to have something that is sustainable. But if you can do that, good on ya.

Kate:

Yeah. And I think that sort of leads us into the next point. It gives you a really good foundation. If you know what the company does, you understand the business model, the different... Big companies often have many different revenue sources. They might have completely different products all under one banner. So it might take a long time. And I guess as we'll talk about in our episode next week, one company can have thousands of different little subsidiaries underneath it.

Owen:
That's it. That's what makes you feel overwhelmed when you start researching, but don't. Just start with the product, start with the service, and then go to the annual report.

Kate:
Yeah. Pick something that you love and that you use. That's often, if people want to get interested in investing and how to research, I often mention just pick something that you could use every day because you already understand the consumer side of things, and then go from there.

Owen:
You said just off air a minute ago that someone that you heard about would buy shares in the companies that they buy products from because it was like forced savings that had forced them to invest in the businesses that create the things that they love. So if you just invested in the things that you love, sure, some of them won't work out and that is investing. Some won't work out, no matter how much research you do. But if you just found things that you love and other people loved, you're on a pretty good track to being a good investor.

Kate:
Yeah. Awesome. The next part of the checklist is who runs the company.

Owen:
Yeah. This might come as a huge surprise to a lot of people, but the name Rask, R-A-S-K, is actually part of my surname.

Kate:
Most people think your surname is Rask.

Owen:
Yeah, they do. They think that's my full name. But I see the company that we run as an extension of myself. I know you know this Kate because we talked about this just even today, like the number one thing that's important to me when I run the business is making sure that our customers, that our members, that our readers, everyone gets a good service. Now. If I wasn't the person running this company, if Rask was just some weird name and there was some hired CEO who didn't own shares in the company that they ran, I would be concerned about the future wellbeing of the company.

Owen:
I guess a good analogy would be like if you own a bakery, and I know heaps of people that do own bakeries or cake shops, we've had Alisha on the Podcast before, they're so darn happy and in love with their product that you could just look at them and you could be like, "Wow, you are impressive. I would invest with you, just simply because you're so passionate." And so then us as investors, we've got to look at it through that same lens, but just apply it to a bigger company.

Owen:
Who runs Tesla? Everyone knows that it's Elon Musk. If Elon didn't run Tesla, then you might think that the company is worth slightly less because it doesn't have that flair, that entrepreneurship. Yeah. Or if Cathie Wood didn't run ARK Investment, you would think, well, Cathie's not there anymore. The company is nowhere near as good. And so paying attention to who runs the company is one of the fundamental things behind any type of investing. It doesn't matter if you're going down the street and you want to buy a local cafe, look at the way that the owner acts. Look at what they're incentivized by, what are they doing?

Owen:
It is the same thing with investment in any company. So if you want to find out, for example, who runs Telstra in Australia, you would go to the About Us page on the Telstra page and you'd find the executive team. You'd look at, are the board of directors... So for those who don't know, the board oversees the strategy and tells the CEO what they effectively can and can't do. But then the CEO executes on that strategy each and every day. And they're in charge of that. So you would want to make sure that the person who runs the company owns some of it, which Cathryn will talk about next week, and Disney is a really good example. And you want to make sure that they have incentives that align with your incentives.

Owen:
What do I mean by that? I mean, if you are a long-term investor like we are, say 10 to 20 years, if you want to own a share in a single company for 10 to 20 years, make sure that the person who runs the company is also incentivized to make the investment work out for you. And the way you do that is you look at how many shares they own in the company they run, this is called skin in the game, and how much salary and how they earn their salary. I think Cathryn going to bring up an example next week, but imagine that you earn $100,000 and 50% of your wage each year was depending on your performance, what would that do?

Kate:
It would really force you to work harder, wouldn't it?

Owen:
Yeah, exactly. And so we got to do that, but we just apply that for the CEOs and the board members to find out. These are called long-term incentives or LTIs. We want to make sure there's more LTIs than STIs, which is short-term incentives. And that's the basics of it. So Cathryn’s got some other examples which she'll bring up next week, but we need to find out who runs it.

Owen:
If you look at Reece, the company that sells plumbing products, I won't say the name maybe, but that's run by a family behind the scenes. If you look at ARB, that stands for Anthony Ronald Brown. So you probably see ARB in red letters around the place or on four wheel drives because they make the best Bull Bars in the world. That was started in late '70s, I believe. And so these are companies that are on the stock exchange that have families and founders that run them and you can invest alongside those founders and family members. I was talking to a CEO last week for our rockets programme and he said, "We own 45% of the company." He's talking about him and his immediate two or three founders. And he said, "We came onto the stock market because we wanted to give other investors a chance to come along for the ride." Super cool. If you trust him, by extension you're investing in whatever he says and goes.

Kate:
Yeah. Along with the skin in the game aspect, I think another important thing when you're finding out who runs it, like the board and the CEO, is actually looking at their history and the companies that have been associated or involved with prior to that. I mean, if the chairperson of the board has these companies that have done really well in his wake or she's got companies that haven't done as well, it's really interesting to know that. Sometimes people have a train of destruction or they haven't really been involved at a higher level type of business before. So it's really interesting.

Owen:
So then you've got to take the risk on them, right?

Kate:
Yeah.

Owen:
And so imagine it like this. If you have a thousand dollars that you're going to invest as per your... as per your thing at the to start. If you have a thousand dollars to invest and you going to invest in the company, you're effectively saying, "Here you go, Kate, I'm going to invest in your company. I need you to take care of this for me." That's effectively what you're doing. But people get lost because they think it's really difficult to judge management from a distance. Some of the things you can do, Cathryn will go through them again, go to glassdoor.com, which is a place where you can see employee reviews. They have a thing there that shows the approval rating for the CEO.

Owen:
You can go to the Seek company's page. So you go to seek, like we find a job, but you go to the company's version of that. You find the company in Australia and you see how many people actually like to work there and are there disgruntled employees, that's an insight into culture. Then you've got skin in the game. That's another one. Then you can troll them on there. I'm not going to troll them but stalk them on LinkedIn or find out, like we had a CEO for one of our

companies who described himself as technology CEO. So not insert name of company CEO or passionate founder of, it was technology CEO. And so he didn't last very long. He left and I think he's gone to another company now. But you can get these really subtle cues from just looking.

Kate:
Yeah. And they've probably done, surely they've done an interview at some point in their career that you can find online. I mean, everything is findable on YouTube now. Even like such their name on Spotify or Apple Podcasts and you might find a podcast interview which may give you some insight into how they operate.

Owen:
Yeah. One of the CEOs that we invested in and I own shares in this company, full disclosure, it's called Pushpay. I better write that down before I forget, Pushpay. I knew about the company because it did digital gift giving. And we know we've talked about Pushpay before on the show, it's on the ASX, PPH is the ticker code. But I had a podcast with their founder many, many, many years ago and the way he described the way he managed his team was kind of profound for me at the time.

Owen:
One of the things he said is that everyone in our team knows that there's a time to be here and a time not to be here. There'll be certain managers that are here for a certain period of time and there'll be a time when I'm not here because I'm not the right person for the job. And sure enough, a few years later he left. But that insight from that podcast many years ago gave me insight into who he was and how he thought about those types of things. So I wasn't too worried when he left, but that's just an example of how you can effectively be your own Sherlock Holmes and go about investigating these companies.

Kate:
Yeah. And it can get really fun investigating and looking for all these different signals.

Owen:
This is the fun part of investing. This is the really cool bit.

Kate:
Okay. Now point three on our checklist is what's the company's moat.

Owen:
Yes. Okay. Moat is, if you think about a castle, a castle is the business. It's like a giant bakery. The moat is the ring of water that goes around a medieval castle and protects the castle from attack. So the soldiers in their really heavy chain armour could never get to the gates and bang down the door because there was a ring of water around. If they got stuck in that, they'd drown. So think of a moat as the thing that protects the castle. Think of a moat as the thing that protects the business. Let's use a really good example, which is three cafes side by side. They are all

identical cafes. There's Kate's cafe, there's Owen's cafe and there's Rask café. There's three different cafes.

Owen:
Now, I being a super... I think I'm a super shrewd business owner. I go out and I say, "You see this coffee right here, Kate? I'm now going to charge $7 for a large coffee instead of $5." Well, you as the next cafe along the street, you'll be like, "No, I'm going to keep it where it is." And the other cafe is like, "Yeah, I'm going to keep it where it is." So that all the customers are just going to go to the cheaper cafe because they're identical. Now, if I had some special herbs and spices in my coffee, or if I had some sort of patent over this particular type of coffee that you could only get it at the store in Australia, then the customers would still come, but I'd be making more money than you and the difference is that I have a moat around my business.

Owen:
Moats can come in many shapes and sizes and forms. The most obvious example is Facebook who has what we call a network effect. A network effect is effectively the more people that use a product, the more powerful it becomes and more valuable. More people that use Instagram owned by Facebook, the more people that use WhatsApp owned my Facebook, the more people that use Facebook owned by Facebook, the more people that use Messenger owned by Facebook, the more valuable all of those things become. And so that is its moat because no one else can come in and be like, "Hey, we've got 3 billion users."

Kate:
Yeah. The effort to find another 3 billion people to sign up for a new platform and to integrate, that Facebook is integrated with so many different platforms. You just go to sign up for an account on another platform and it'll go sign up with Facebook. There's so many integrations that it's very hard to unpick all of that and go with a new company.

Owen:
Totally. Let me give you another example, and this is for all the young men and women out there that may be thinking about some naturals is if you go to Tiffany and get an engagement ring, you buy a $20,000 engagement ring. You're getting a $5,000 diamond in a $15,000 box.

Kate:
The boxes are great though.

Owen:
The box is great, right? But that is because they sell the same piece of rock.

Kate:
But you can get it at Swarovski or something like that for quarter of the price.

Owen:

Exactly. And you get the box. So here's a hack. If one of your mates has been a sucker and gone and got a Tiffany thing, ask for the box and go and buy a ring from Zamels or online, go direct through a wholesale like I did.

Kate:
You can buy the boxes online and the bags from all this like Chanel and Gucci and Tiffany. There's a market for selling the packaging.

Owen:
There you go. But that's Tiffany's competitive advantage. It's called an intangible competitive advantage. It's otherwise known as a brand. The brand is its advantage. So that's why when you go into a Tiffany store all the good stuff is the things that you see and all the crap stuff is somewhere at the back.

Kate:
You have the security guard standing at the front giving you that feel of, I don't know, superiority that you can afford to buy something at Tiffany's, and the staff and the way they're dressed. It all sort of adds up into that brand and personality. And to think that you're the person that can buy something from Tiffany, it does set it apart from just buying $1,000 or $2,000 item somewhere else.

Owen:
Yeah, 100%. So that's another example of a company with what we would call a wide moat. A moat effectively protects the castle from all that attack, or when it does suffer all that attack, it can have a time advantage. So it has time to react. That is a moat and that's what we look for. We only invest in companies with moats. A lot of investors go and buy insert company name because they think it's a good investment, like some companies on their assets that promise huge, amazing things, but they're actually just promises. They don't actually have something that's purely defendable and sustainable. So we are looking to invest for 10 to 20 years. I would say you would not achieve good results if you don't buy companies that have a moat. This is the key insight. This is where we used to spend most of our time. Not necessarily has a moat today, but what's the Tiffany of the future? That's what we're trying to find and that's where we spend our time.

Kate:
And even if your company has a moat today, can they keep on top of that over the 20 years?

Owen:
That's it. And so what does the CEO or management team do to protect and widen the moat? So think about them being in the trenches digging out that moat, making sure it's as wide as possible. And sometimes that means that the companies aren't sexy. Sometimes the companies are boring. Sometimes the best companies in the world put glue inside of nappies and that's the only thing that they do. And if they tried to do anything else, they would lose. So they stay inside the moat. That nappy example is actually a real company, but yeah, you get the idea. That's

checklist number three. So check point number three, we have, what does it do, that's number one, who runs it in management, number two, and the competitive advantage, aka the moat, is number three.

Kate:
Okay. We're on to number four, is this company in a growing industry?

Owen:
This is important to us at Rask because we are investing for a very long period of time. If you look at the studies that show over say anything from 30 years or more, so very long historical analysis, what you do tend to find is dividends, those checks you get in the mail or in the post, so now you get direct deposits hopefully. You've done that through a share registry. What the studies show is that around 50% of the returns that an average investor gets, an average investor, comes from the dividends. But what you'll also know if you've been investing for long enough and you look at say like the ASX 200 or the Dow Jones or the S&P 500 or the FTSE 100 in the UK, these are all stock market indices or measures. If you go long enough, the chart almost always looks like it goes bottom left to top right.

Kate:
When you're on Google Finance and you hit like all times and suddenly the chart goes from one day to 20 or 30 years, it's very different.

Owen:
And what you find is that bottom left to top right is that's the key to your long-term investing success. And there are many things that influence that. But the key insight here is that if you Zoom in to any one day, the chance is like a flip of the coin is it going to be up or is it going to be down? But if you zoom right out, you will find that more often than not, the share market goes up. And so people always say, "Oh, well, it's a zero sum game, Owen." Meaning that there's a buyer for every seller. Well, I would say, one, if you actually look, it's not a zero sum game. Even though someone else has a different opinion to you and when they sell you their shares, you buy the shares and you think something different, what actually happens; if you buy good companies, it's not a zero sum game. It is not.

Owen:
And so what we find is that if we focus on really high quality companies in growing industries, we believe that we can tip the odds in our favour of finding some really good companies. And our belief is that definitely not every company we buy is going to be a success. So if we get four... This is how the math works. If we get four out of 10 really good companies, we're going to make a shed load of money. Just four out of 10, mean that six could go wrong. And the reason is, and this is banded around. I don't like to use this, but I'm going to use it now is people say you can lose 100% of your money on stocks, true, but you can make a lot more than 100% on your money.

Owen:

But the only way I believe that you can do that sustainably is if you invest in great companies for a very, very long period of time; because if you have one great company that you've thoroughly researched and you own it for years and it grows, even if it lasts 20 years, that's the great thing, chances are that investment is going to be worth more than 10 others that you've made. So the point is that the really good companies outweigh the losers and in a growing industry, there's a saying that a rising tide lifts all boats. So what we try and do is we try and find companies that are in an industry, a sector or some part of the market that is naturally growing. People are like automation, artificial intelligence creates this new chip, right? The reality is that not every company that you pick will do well. So what we try and identify is what are the things that are going to change people's lives?

Owen:
I remember I was amazed when I heard Bill Gates say, "Yeah, we wanted to put... We called it a desktop because it was like the desktop you have at home." I was like, "Holy shit. Someone actually come up with that. That is amazing." This person influenced the world. You're like, wow, that is so cool. He was calling it a desktop because it looked like his desktop at home. And here I was over in Australia with a dial-up internet connection in my back room trying to connect to the internet, calling it a desktop, I don't know why, but we're trying to find those people and those companies that changed the world for the better. And that is super exciting. And to do that, they need to grow. So we're trying to find those growing industries like cloud computing, automation, low code environments, genomics or any insert cool innovative thing, we're trying to invest in those.

Kate:
Yeah. And you're trying to pick some of the winners among the growing industries of growing consumer demand and business demand and what people actually want.

Owen:
This is the thing where especially new investors get wrong is we're not just getting suckered in by some story. These companies actually have to be legitimate companies. So they already have to have positive cash flow. They already have to be selling a great product. We have to be able to speak to clients or customers of those companies in order to know that it's actually real. There are some companies on the ASX, not to timestamp this conversation too much, but there are some companies on the ASX right now and in the US market and in global markets that are just built on fluff that you've got to be smart.

Kate:
And as always, whatever happens, there's always going to be scammers out there or people with bad intentions and that's part of the whole thing you're going to have to deal with. That you're going to have to try and see through some of the noise and see if the company's actually doing what they're saying they're doing. You'll probably talk with Kevin a bit about this further on. But as a side note, I listened to a really interesting podcast series recently called The Dropout about Elizabeth Holmes, the founder of Theranos, a company that was valued at billions of dollars that went to zero. It wasn't listed, but it was just it sold a dream, it sold a story. But at the

end of the day, the technology just couldn't work. The world wasn't advanced enough to do that. So sometimes things sound amazing and glossy and like they're going to change the world in the outside, but maybe technology just hasn't caught up.

Owen:
Yeah. And this is the thing. She suckered in so many of the world's wealthiest people to investing in her company.

Kate:
They were supposed to be able to test 200 different diseases and things from one or two drops of blood. Amazing.

Owen:
Yes. It was outrageous. But I think she had crazy eyes. That's my opinion. I think she had crazy eyes. If I was to see her presenting, I've done, "Hmm, crazy eyes doing investment."

Kate:
But she raised a billion dollars. People believed in her story. And so sometimes I think that it just reminds you to be a little bit sceptical when looking at the visionary companies. Just you want to see what's actually going on under the hood. Does the technology actually work and have there been customer success stories or is there something else happening behind the scenes. You can't always find out.

Owen:
Yeah. And the thing is, we cop a lot of crap at Rask because we call out a lot of these companies early. Like we say, we try and research about to be honest it doesn't look like a legitimate business. And then we report on it or we write about them in our news sites. And then everyone on every Facebook forum or Reddit, Subthread, they're like just acting as mad as a cut snake. They're just going nuts about how dare we say something so bad.

Kate:
People get very passionate if they think they know one thing about the company or they've put all their hard earned money into it. You keep telling people not to do this but there's always cases of people putting every single dollar they own into one single company. That is bad.

Owen:
It my only $5,000, it's worth it.

Kate:
And they will defend it on Twitter, they'll defend it on Reddit, they'll defend it on Facebook with every ounce of their being.

Owen:

Yeah. And the thing is, this is what I always say. You know these people when you come across them because they've got like hers, crazy eyes. They are so angry when they type into the keyboard that they don't even get their words right. The thing is, this is what I always say is that you can't will the stock price higher. No matter what you think, no matter what you believe, it does not make a difference.

Kate:
The stock price doesn't care about you individually and your hard earned money invested in there.

Owen:
The only thing you can do is try to act rationally. We're all not rational, shocker, but the only thing you can do is try. Sure you can make money off every other bozo who thinks like he's getting sold a dream, like there's every charlatan snake-oil salesman out there. But reality is it doesn't care about you. And if someone else says something negative, you should actually embrace that because if you truly believe what you say you believe, then you would embrace the negativity and hopefully buy more when it falls. So yeah, I don't get that. Anyway. That was number four. Is it in a growing industry? You can make money in falling industries, but we prefer growing industries.

Kate:
Yeah. Okay. And the fifth part of our checklist is, what's the company's valuation? What should the company be reasonably valued that?

Owen:
Yeah. I'll give you a story to illustrate this point. Microsoft, we talked about desktops before. I don't own Microsoft shares, but we've talked about Microsoft before. You know it, we know it. We don't use it at work, but chances are you do. You could have bought Microsoft shares in the dotcom boom, which is like the late '90s when the internet was a thing, and you could have bought shares at a price. And then the dotcom boom busted. So it was the dotcom bust, and the share price fell. A lot of the companies went broke. Amazon would've probably gone broke if it hadn't have sold shares before the bust. So a lot of companies went bust. And so the stock price of Microsoft fell. It would have taken I think it was about eight, maybe eight to 10 years before the stock price got back to what you would have bought it for.

Owen:
This is one of the biggest companies in the world today and you paid a price initially. Yeah, now you probably think, oh, what a genius I was. I still own it today. But the reality is most people who bought at that price didn't understand the value. Like the difference between the share price or stock price at the time and what it was actually worth based on the future growth of the business would have told you that it was overvalued. And so what you need to do to make sure that that doesn't happen is, firstly, find a great company. In this instance, Microsoft is a tremendous company. And the second price is, try and understand what it's worth. I say try because people believe that investing is about spreadsheets. Sure, you need to understand

some accounting. But there's a saying that we have which is that you're better of being generally correct than specifically wrong.

Owen:
If you try, and a lot of beginner investors who are on this kind of campaign to be their own investor do this. They're like they believe, and I believed this for so long that there is a formula that tells you exactly what the price you should pay and what you should get out at. There's none. Shocker, there's none. You can be generally correct, but people who put that first generally make mistakes. The biggest mistake that they make, if they focus on valuation too much, is they never buy the company. They find a tremendous company, ticking all the boxes that we've just talked about. And then they get to valuation, they're like, "Hmm, it seems expensive." Shocker, the best companies are almost always expensive. So you've got to determine if it's okay to pay this price. Not necessarily is it a bargain.

Owen:
Charlie Munger, who's the side piece of Warren Buffett and arguably the best investor of all time, maybe except for Buffett. But if you look at Charlie Munger and what he says is profound every time he speaks. One of the things that he said many, many years ago is, it's better to own a wonderful business at a reasonable price than a reasonable business at a wonderful price. You want to own great businesses. First and foremost, if you can get them at a reasonable price, buy them. And the way that we kind of work around this is we do evaluations and we understand what the business does, which in the next two episodes you'll find out how we do those valuations. But the key point is that you don't have to buy your full position straight away.

Owen:
So you can, in the case of Microsoft back in the '90s, you could have been like, "Okay, I'm going to put $5,000 in today." If you had say $15,000 to invest. And then in a year, I'm going to put in another $5,000. And then a year after that, I'm going to put in another $5,000, and that's my full position. If you did that, sure, the stock price could have kept going up. You would have kicked yourself. But if it fell, then you would've got a better price. If it fell again, you would've got a better price again. And then today you'd be sitting on massive gains from your investment. And the key point there is that you don't have to rush your investment. You could take the time to make sure that you let the company do what it says it's doing before you invest your full amount. And so you can minimise your downside and maximise your upside.

Owen:
The four most dangerous words in investing are this time it's different. But the second four most dangerous words of investing are buy low, sell high. We talk about this all the time and I think so many of our listeners love that we say this. It's not buy low, sell high. It's buy low, buy more. Or it's accumulate, one word.

Kate:
We talk about dollar cost averaging a lot for exchange traded funds (ETFs) and investing on a regular basis. But I don't really hear people talking much about it with shares. And so often you

go, "This is my $5,000, that's it. Whether it goes up or down, that's all I'm putting in this company." Whereas if you love the company, it's doing great things, it's growing over a 20 year period, why wouldn't you buy more?

Owen:
Yeah, that's it. And people, because this is something that we do is called anchoring bias. We anchor to a particular price. There's one thing, and this is not the way we invest, but there's this belief in technical trading, or trading, which is the opposite of what I do. They believe that there's a thing called support or resistance. There's a study that somewhere once upon a time showed that there tends to be support and resistance around whole numbers: $10, $11, $15.

Kate:
We do like whole numbers.

Owen:
We do like whole numbers. But the reality is that, yeah, that's not really a thing. People believe that if I paid $10 in the past, that the share price being $20 now, it's expensive. But here is the thing and this is what we're going to talk about in the coming weeks is at $10, it might've been worth $20. So you got a bargain because you bought it at a reasonable valuation. But then when it went to $20, the business is grown. So now it's worth $30, you're paying $20. So you're still getting a good deal, even though it's going up. And the way I describe it is if you know what you're doing, valuation is like the handlebars. You are in control of your investing. If you don't understand it, then it can be pretty unworldly, but just know that it's not that difficult. I would rather, if you gave me a choice today, Kate, of knowing how to value companies or knowing how to research them, like just understand their products and services, far and away every time I would pick just knowing how to research a company.

Kate:
Yeah. So often we get caught up in the valuation and the specific number of the share price and we don't actually look at, well, what's the company actually done over the last few years. How's it been growing? What's it been doing? What has it been acquiring?

Owen:
Yeah. One of the things I want everyone to take away from this is that share investing is investing in companies. It is super fun. You are basically the Sherlock Holmes of the business world. You get to understand brilliant businesses. And if you get miffed by investing or you don't understand the valuation part, just make your portfolio. And this is David Gardner from the US line, Motley Fool co-founder, just make your investment portfolio reflect your best version of the future and just hold on. And if you do that for the next 20 years, I'm almost certain, I can't say guaranteed because you can't say that in finance, but I'm almost certain that your portfolio will be bigger in 20 years than it is today.

Owen:

And if people just found great companies and gave them the time to hold on, to execute, I think that your investing would be so much easier. Yeah, I mean, we could keep rattling on Kate, but valuation, we have so much to say on this. We have courses on Rask Education, a free valuation course, the Value Investor Programme, which is the full training on how to value companies. But you don't have to pay for that. That's a paid product. There's a free version. You can do that. There are our podcasts, the Finance Podcast, there's the Investors Podcast we have. All of these things we talk about. There are great books. Just, yeah, go and apply some of the knowledge from those and you'll be right.

Kate:
And have fun with it. Enjoy the research process and diving into the numbers. That will quickly tell you if you want to be a share investor, whether you want to be someone that's interested in specific companies and what they're up to and keeping track of how they're changing and growing over time.

Owen:
Can I just throw one in there, which is the really simple thing that we came back to at the start of the show, which is that you invest in shares, you've got a robo-advisor, you've got ETFs, you've got a managed fund. You can just have your share investments as the thing that you do with 5% of your money, 10% of the money, 30% of the money. You can make it the smaller part of your money that's more exciting, and then you have the core, which is your ETFs, your managed funds, your robo-advisor, your super fund, property. That's that side of things. I believe that investing in individual companies works. But more than that, I'd just love to understand how the world works. And you do that through investing in businesses and understanding how the economy changes businesses and people react on certain things. So anyway, yeah.

Kate:
Yeah. I think that brings out five-point checklist to the end. I'm excited for next week's episode where I'm going to be working with one of our analysts at Rask Invest, Cathryn Goh, and we're going to apply some of the things we talked about in today's checklist to the Walt Disney company, which is a company we all know and love. So that's really exciting. And so stay tuned for that episode. And then following that episode, we'll have an advanced analysis episode with Owen and one of our other analysts, Kevin, and then we've got our Q&A episode. So don't forget to send any questions to podcast@rask.com.au with Shares Month in the subject line and we'll include them in our Q&A episode. And then we'll have our $10,000 hypothetical portfolio after that. So it should be an exciting month of episodes.

Owen:
Yeah. Every Monday afternoon, tune in. We're pushing these episodes out and we'd love to know what you think. If there's a question you have about share investing, please let us know. This is rare that we've got two people coming on the podcast from Rask that have never been on a podcast before.

Kate:

They required a little bit of convincing.

Owen:
I still don't know if they're convinced.

Kate:
You better enjoy it.

Owen:
Yeah. So send us your questions. It is a rare occasion when all of us get to sit down and answer your questions. From all of us, just make it fun, make it a good question. Ask the thing that you've always wanted to ask, remembering that we do have heaps of questions on brokerage accounts. You can go to the Rask Education site. You can take our Shares for Beginners course. You can just Google Rask and brokerage accounts and things will come up. All of these things are really exciting, but we really just want to hear about shares and companies and all that sort of stuff. So we'll be bringing more of that your way. Kate, as always, thanks for joining me on the Australian Finance Podcast.

Kate:
Thanks for listening, folks.

Kate:
Thanks for tuning in to this episode of the Australian Finance Podcast where our mission is to improve the financial futures of all Australians. If you'd like to learn more, create a free account at rask.com.au/account to download free episode workbooks, bonus resources and take our amazing free personal finance courses.

Owen:
You can also join our online community by following the link in the description. If you enjoyed the show, what we'd love is for you to leave us a snappy review on iTunes, and you can follow us on Twitter and Instagram @RaskAustralia. Kate and I are also on both of those channels. Finally, if you have any feedback, suggestions for episodes or guests to come on the show, or you just have a question for us, shoot us an email at podcast@rask.com.au.