The Australian Finance Podcast Episode Transcript

Episode: 📈 Share investing checklist (ASX & US companies)
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Speakers: Kate Campbell & Owen Rask
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Please read this prior to using this transcript:

Episode transcript:

Owen:
Kate Campbell, welcome to this very first episode of Shares Month 2022.

Kate Campbell:
It has been a year since. 2021 it's-

Owen:
It has been a year. What a year it's been.

Kate Campbell:
Inaugural shares month, is that the right use of the word? I do not know.

Owen:
Yes, let's go with that. So May and June 2022, over this next month, we're going to talk about share investing because it is super popular amongst the community.

Kate Campbell:
Yeah. And so we're going to build on the skills each episode, and we're going to kick it off with a checklist that will have a downloadable form. We're going to do a deep dive into a company.

This month we're going to do Xero, which was the runner up in our last poll in our Facebook community as well. So it was a crowd favourite, it seemed. This was when I forgot to put the settings on the poll that meant people could add anything.

Owen:
Anyone could [inaudible 00:01:05].

Kate Campbell:
So Xero was actually added and it was a close runner up to Magellan at the time. So we decided to go with Xero. We're going to do a share specific Q&A. We're going to talk about Small Caps. We're going to bring some guests in to talk about ethical investing and blue chips and income-focused investing. So there's going to be plenty for everyone over the next eight episodes.

Owen:
Yeah. So we've talked about ETFs a lot. This is a chance to bring it back to basics of share investing. So chances are many of the listeners have invested in ETFs because we've talked about them being an easy way to get involved in investing, to get a diversified portfolio. But individual shares is still probably the most exciting for most people. This is where you can buy Amazon shares or you can buy Telstra shares, whatever you fancy, and you can actually own part of that company, a very small part. But we're going to go through how you can do that from the ground up. So if you're new to this, that's okay. This is what the next month is for. And you can send your questions in too. So be sure to make use of that. And finally, the community on Facebook, so many people in there have been through this before. Probably some of them have been investing for decades, so you can make use of them as well.

Kate Campbell:
Yeah. And follow along, we've got our Get Started Investing with Equity Mates course on Rask Education. We'll link to that in the show notes, so you can also use that to continue the learning when you're not listening to the podcast and definitely check the show notes each episode, because we'll have plenty of resources linked in there for every episode we do.

Owen:
Yep. And so if you do want to get in touch with this, the best place to go is the email address, podcast@rask.com.au.

Kate Campbell:
And subject line, shares month, so we can pull the questions together for our Q&A later on in the month.

Owen:
Preferably all caps, shares month, just so you can stand out because we do get a lot of emails in there. And so we'll bump that to the top of the list.

Kate Campbell:
And if you can send us a joke as well, that would be great.

Owen:
A joke, an investing joke preferably, or any jokes-

Kate Campbell:
Because Owen's jokes are terrible.

Owen:
Just any joke would be great because then we've got some good material for the next year. But we'll have things like PDF downloads as well, access to courses, that type of stuff, as we go through the next month. So be sure to make use of the show notes. Kate, what are we talking about today though? Is there any value beyond just introducing the series?

Kate Campbell:
Yeah. Well, there we go. Today's episode, we're going to introduce our share investing checklist. So it's five high level things to look at when you're looking at a company. So if you've got your eye on a particular company, you can start thinking about some of the things we discuss in today's episode as we go through them. And then when we do the deep dive on Xero, which you and Raymond are going to do together, you're going to apply the checklist that we discussed today to Xero. And so we'll also have that as a PDF download, but if you want to let us know how you go applying that checklist to any company, we'd love to hear about it.

Owen:
Yeah. So these are five things that you can look at and you can get this information from Google, and then you can just look online.

Kate Campbell:
Yeah, Google's your best friend in this process.

Owen:
It is. Yeah. When I took an analyst job in Melbourne before Rask, one of the criteria for the job ad was good internet search skills.

Kate Campbell:
Can Google.

Owen:
Yeah. Basically. And I thought, gee, that's a very low requirement, that's a low hurdle, but I'll give it a crack. And turns out it is one of your most powerful assets. If you can actually use the internet effectively to find the information you need, that's where you can go above and beyond what other investors are looking at, who might just be looking at their brokerage account or a share price chart or something random like that.

Kate Campbell:
Imagine if you applied this checklist to Google.

Owen:
Well, you could. Yeah. You could apply this checklist to a company like Alphabet, which owns Google, or Microsoft, which owns Bing, any of them. And you can use this checklist, use this to go about your Google searches and also use your brokerage account as well where their annual reports are. And if in doubt, go to the company's website.

Kate Campbell:
Yeah. And I think the other thing to note, as we go through this checklist is if you are looking at these questions in relation to a company, it's really good to just open up a Google Doc, create a notion board and just start taking notes as you go of what you discovered during the journey. Because even if you decide not to invest in that company, you've still got that research notes and you know why you did or why you didn't.

Owen:
Yep, exactly. So that's really good because over time, you'll be able to look back and see, well, why did I do this? And you'll be able to get better. A lot of people don't do that early in the journey. They just kind of jump two feet first and they end up in a situation where they're like, "Oh geez, I wish I did this or I wish I thought about that." And they don't really have the ability to look back and be like, "Okay, retrospectively, I shouldn't have made that decision. Here's how I can improve in the future." Okay. So let's go through these five things.

Kate Campbell:
Yeah. So the very first thing on the checklist is what does the company actually do? Which I think is a really good starting point because before investing in something that your mate tells you about, I think you should actually find out what the company does and what the products and services are and what would you look for?

Owen:
So we call this... This is a bit more like jargony, but when we talk about this, we call it a circle of competence. So we're looking for companies that we can understand. So if we look at the products on the website or we speak to a customer of that company, do we understand what they do? And I think you don't have to know exactly like how an Apple iPhone is made to know that Apple makes iPhones. So you don't need to be an expert in like software engineering.

Kate Campbell:
I imagine that'd be quite difficult to work out how Apple make their phones.

Owen:
Yeah, that's it. Yeah, it would take you probably a lifetime and you still wouldn't have the knowledge of the company. So what we're looking for here is just the ability to analyse a

company. So do I have what's required just to even interpret what they're saying? At first that might seem overwhelming. So for example, for me, the circle of competence is like... Just imagine a circle. And then within that, you have a smaller circle, which is what you actually understand. And this is all about humility. It's like me saying, "I don't have any clue about biotechnology, so I'm not going to invest in those. I don't really understand mining, so I'm not going to invest there." But I do understand Apple because I have technology in my undergraduate degree. I love building websites. I use the phone every day. I love Apple products, et cetera.

Owen:
So for me, that would be in the centre of my circle of competence. So therefore, I'm happy to keep researching it and understand what they actually do. But many companies fail that first filter. So just keep that in mind. If you find a company, you look it up and you're like, "I don't really understand, it seems really complicated" don't worry about it. Move to the next one. There are 2000 in Australia and over 10,000 in the United States, so there's plenty to choose from.

Kate Campbell:
A lot of choice out there. And I think the other thing you also want to know is even like, who are the customers? Because not every company has customers.

Owen:
Yeah. That's it. Yeah. So some companies aren't like brick-and-mortar retailers that you just walk up to or walk past on the street. You have to actually think really carefully about, okay, actually, who is buying this stuff? Because it could be business to business. It could be a business selling its products or services to another business which you might not have heard of.

Kate Campbell:
Well, they might just be hoping to sell it to somebody one day.

Owen:
Well, yeah, there's people, there's companies that don't even have anyone walking through the door literally or digitally, they're just a startup. So you got to keep that in mind too. But you'd be surprised at how many people don't actually know what they've invested in. It's not that uncommon, but at the same time, you probably should get away from that as quickly as you can. Peter Lynch, one of his quotes, he was a famous investor and author of One Up On Wall Street, he basically said that behind every company, behind every ticket symbol is a company, find out what it's doing.

Owen:
It's pretty simple. Like you can go to the company's website. And try and look at it, like what products and services do they offer? What is the price of those products and services and how do those prices compare to a competitor's prices? And that will give you an indication. For example, if you look at Apple's iPhone, it's probably going to be more expensive than Google's Pixel or even Samsung, even though they're both expensive as well, it's probably more

expensive than those two. So why? And then you can think, okay, wonder why? And that's where the curiosity kicks in and investing becomes interesting. So go and check that out. Have a look through the annual reports too, if you have [inaudible 00:09:04].

Kate Campbell:
Yeah, I think that's a good starting point. You get a good overview of the company and all their different... Because some of the large U.S. companies that we've talked about before, like last year when we talked about Disney, they have so much going on. It's like takes you a long time to get your head around the hundreds of different business units.

Owen:
That's it. Yeah. So you could look at the annual report that's issued by every company that's on a stock exchange. You can typically find that on their investor relations part of their website, or you can go into your brokerage account and they'll be like on a news or an announcement tab once you've clicked on the company that you're looking at, and then they'll have an annual report. And just have a read through it. The first few pages is for the chairperson and for the CEO, they do like one or two pages to tell you how they've gone that year. That'll tell you a lot about the company.

Kate Campbell:
How long do you typically spend getting the initial overview of discovering what the company does?

Owen:
Well, we tend to tackle all five of these questions in one go. So we basically do it in two parts. The first is what we call an initial filter. And this is where we answer all the questions, like in a checklist or spreadsheet and we are not going for heaps of detail. We're just going for the answer. So what I mean is, what does the company do? You go to the company's website, you might see, it might be Apple. You see computers, you see phones and you go, in your own words, in a couple of sentences, sum it up. And it would be, Apple makes phones that are high end and sell at a premium price point through their own stores and online.

Owen:
And so that would be the answer to that question rather than going for forever. Then what we do is once we get through all of the checklist, then we give the company a score. And if the score is high, it means we should go back and research this company. If it's low score, we think maybe we'll research it another time. So it's like an order of priority. So all in all, once we get through the full process, it could be weeks.

Kate Campbell:
Wow. That's quite a bit of time.

Owen:
Yeah, it is. It is. But you don't need to go to that depth.

Kate Campbell:
Yeah, that extent.

Owen:
Yeah. You can use research providers or whatever.

Kate Campbell:
Yeah. Okay. So the first thing on our checklist is, do I know what the company does? Do I know the competitors, what they're selling, what their business model is, some of the track record? And using their website and the annual report and the announcements for that. So the second thing on our checklist is who actually runs the company?

Owen:
Yeah. So this is really important, obviously. So I once heard a really good investor talk about this like a jockey and a horse. The company is the horse and the jockey is the CEO or just the management team. So you want two good units there. You want the horse to be good and you want the jockey to be good, to get the best performance. Now, you can have a good horse and not a very good jockey and still win. So the importance there would be that have a really good company. And so that should be your priority. Is the company really good? Because the worse a company is, the better the jockey needs to be, if that makes sense. So who runs it? You can find out this by going to the company's website or even their Wikipedia page. If they have a Wikipedia page, it will have an origin story in there and then you can see who's involved, what they do, et cetera.

Kate Campbell:
Funny story. I was actually looking at a multi-billion-dollar U.S. listed company the other day and in the about us section, it actually linked directly to their Wikipedia page-

Owen:
Oh really?

Kate Campbell:
... which I hadn't seen before.

Owen:
Yeah. Right. I haven't seen that either. [inaudible 00:12:17].

Kate Campbell:
They must have authorised it.

Owen:

Yeah. That's interesting. So Wikipedia is actually a really good resource for company histories and buyers, particularly the bigger ones, because it actually goes in order. Like it will tell you how the company started, who started it, whether in a garage-

Kate Campbell:
[inaudible 00:12:31] scandals.

Owen:
Scandals of external news resources. So you can actually use it for that sort of thing. I'm sure, well, I did this, maybe not so much UK, but when I was doing assignments for uni, I would research the topic. Wikipedia is not a source that you can reference, but you could then go into the footnotes and find out what things were referenced from Wikipedia. And so you can do the same thing as an analyst. You can go through and look at a company, look at their Wikipedia page, click through to the CEO, click through to their related other companies or whatever, and go from there.

Owen:
But basically what we want to find is a management team and a CEO who have experience, they have shares in the company that they run because that gives them an incentive to do well because their money's on the line. And you also want to make sure that they have some sort of talent. And that's harder to, I guess, garner from the outside. But you just want to hear them talk, you go on YouTube. Are they passionate? Do they fill you with confidence about the future? Because how are they going to inspire their team if they can't inspire you? And so these are the things we want to look at. I'll give you a very subtle example of how this can go, like the devil is in the detail. So those are like the high level pitches, but the devil is in the detail.

Owen:
So we once looked at a company CEO's LinkedIn profile and had his name and then right below it said technology CEO. Now, on first glance, that might be right, because this is a CEO of a technology company, but it didn't say the company's name. Now, so you could take away two things from this. The first is that okay, they just got a dormant LinkedIn profile, which they didn't because it was pretty active. But what it might actually tell you is the CEO isn't married to this company. They might identify as I'm a technology CEO-

Kate Campbell:
Who just happens to be working at this company.

Owen:
... who just happens to be working at this company. And sure enough, not long after, he was reappointed to the company, he'd already been there once before, he left. And I don't think he updated his LinkedIn bio, but he left. And so now the CEO says CEO of this company, fantastic, really passionate, and it's totally re-energised their workforce. And that's the difference that a person can make and how you as an analyst might be able to stumble across a very small clue

that may or may not be a red flag, but maybe it's like an amber flag that gives you a hint at what might come next.

Kate Campbell:
Yeah. And even if you just think about the workplaces you've been in the past, the difference having a good or a bad CEO makes on the culture and employee satisfaction and whether you actually wanted to stay there and you enjoyed the direction things we're heading.

Owen:
Yeah. Totally. So that's what... I mean, in a smaller company, the CEOs tend to have more day-to-day involvement, but in a larger company, they tend to just set strategy and inspire others. That's basically their role. So the bigger they get, the less involved in the tools they are, but they still need to inspire and still need to motivate people. So that's number two.

Kate Campbell:
Yeah. So number two, who runs the company? Do you know who the CEO is, the board of directors, the chairperson? Understand a bit of their backstory, how much they're getting paid, what the other incentives are, because there's often incentives, which I'm sure we'll talk in future episodes about. And just who the key people are involved because that really makes a difference.

Owen:
For sure, it does. Yeah.

Kate Campbell:
So the third one is what is the company's moat? Now, this is one of my favourite ones because it just reminds me of castles and fantasy novels.

Owen:
Yes, it would do. Kate, I can imagine why. So a moat is that ring of water around a castle, and this is where it gets its name from. So the moat in mediaeval times protected a castle, in this case a business, from attack, from armies, so competitors. And the basic idea is that some companies have this ring around them. You can't see it. They don't just pop up down the street and they've got a ring around them. They don't just put a moat with crocodiles in there.

Kate Campbell:
I'd love a moat in Collins Street. That'd be great.

Owen:
Oh yeah, that'd be nice. Yeah. I'm sure the council would've something to say about it. But the idea is that some companies have some thing around them that protects them from outright competition. And so a good example, seeing that we're on the topic of Apple is Apple's brand. Now, if we compare Apple iPhones brand versus Samsung Galaxy, or the Google Pixel, they maybe don't have a strong brand around them. And for that right, Apple charges more. So there

is competition, right? This is like perfect capitalism. There is competition. However, one brand stands above the others. And that's an example of a moat. There are many different types of moats. That's just one being brand or intangible assets, things you can't touch. There are things like BHP Billiton in Australia, which is the mining company, that's bigger than just about every mining company. So therefore, it has bigger mines, lower costs, more railways, those types of things. So it's got a scale advantage.

Owen:
There is an interesting one, which a lot of people probably don't think of that much, which is a network effect. So in the early days of Facebook, Facebook grew on campuses, started with one and then expanded quickly and then expanded outside campuses. And it exploded, billions of users now use Facebook or Instagram, et cetera. TikTok has broken all the records. So TikTok has come along and done it faster than even Facebook did. And that is a network effect at play because the more people that use TikTok during lockdown, the more people that wanted to get on it, the more creators that got on it and then more people come on it. And that network effect is like every extra person comes on faster and cheaper than the last person come on.

Owen:
Now, I find that network effects can work really well in the early stages of a business, but you just have to be mindful that sometimes you can overpay because you can get excited as well. I'll give you an example. Vine, Vine was actually owned by Twitter and it basically did exactly the same thing as TikTok, but it never took off. So you might have got excited seeing some users on the platform, but it never took off. So you didn't want to invest too early or too much too early and get [inaudible 00:18:36].

Kate Campbell:
Yeah. Sometimes it's a great thing, but at the wrong time.

Owen:
That's it. Yeah. So you have to make sure that that is in play, but there are many different types of competitive advantages. One of them I'll tell you just quickly, because it will relate to Xero, which we do in our deep dive, is something called switching costs. So this is when it's very difficult to change products. So once you use Apple iOS, it's very hard to then go to Samsung or from Samsung back to Apple.

Kate Campbell:
Yeah. Once all your data and photos from 10 years are stored in the cloud.

Owen:
Yeah, yeah. It gets harder and harder. So that's actually an interesting point you bring up there is that some of these moats can get stronger or weaker over time. So once you use one Apple product, you're more likely to use a second. And when you use a second, you're more likely to use iCloud, which is for storage. And once you use storage, you're not going to give up your Apple devices because you have all of your data. So you get that's an example of the switching

cost, the difficulty in changing, getting higher and also the company getting a firmer hold on you, which means they can charge more eventually. So that's how that works. And many different companies have many different moats. Sometimes they're not as obvious as like a brand. Sometimes it can be like customer relationships, something really unique like that.

Kate Campbell:
Yeah. Yeah. There's a lot of different aspects to have a look at and I'm sure you guys will explore that more when you're [inaudible 00:19:55].

Owen:
Yeah. I think it's best explored through an example.

Kate Campbell:
Yeah. So third thing on the checklist is, do I know what the company's moat is? Or does the company have a moat? It might not. There might be just a lot of very similar companies and the company doesn't really stand out among the crowd and just having a look at the competitors. What makes the company different or if the company does charge more, why does it? Why does it charge more and why do the customers-

Owen:
How do they get away with it?

Kate Campbell:
Why are they happy to pay more? So that's another interesting one. Okay. So the fourth thing on our checklist is the company actually in a growing industry or a shrinking industry?

Owen:
Yeah. So this isn't like... It's important, but it's not essential, I would say. So when we look at companies, what we tend to see in the data is that the best companies tend to do well over five to 10 years. Now, a lot of people will be like... So at the moment, not to timestamp this conversation too much, but in 2020, 2021, now into 2022, renewable energy has been this crazy thing, like lithium, like everyone is going crazy over lithium because it's renewable energy. The thing is that might be a growing industry, but it doesn't mean the company's going to benefit from it. Particularly if it hasn't even dug anything out of the ground yet. It's just all like hopes and dreams. And that's when companies are also most, I guess, risky because they're early stage. So what we're looking for here are legitimate industries that have already proven themselves.

Owen:
So you could say lithium is like this, but you would have to say that lithium minors that haven't actually mined anything yet are not truly in that stage yet. We're talking about industries that are really important and have established, but are also growing. So the industry that we'll talk about with Xero, which is an accounting software that's done in the cloud, so you can access it via browser, that's a growing industry because accountants are shifting their workflows to the cloud and the cloud is more efficient. So the cloud computing environment is much more powerful.

And so that's a growing industry that's already been around since the company was founded in 2006, 2007. So what we're looking for here are big industries and the way you find them is you use Google or you look at the company's reports and they'll have a footnote there where they've referenced some industry report.

Owen:
So let's say for example it's, I don't know, internet advertising. So this would be where Facebook, TikTok, Amazon, all of those big advertisers play. You might Google internet advertising market size. And then you find reports from Gartner, from IBISWorld, you might see something from Statista on there. There'll be a bunch of different ones. And this is something that a lot of people don't know, when industry reports are quoted, they might be like global advertising expected to hit $1 billion, for example. It's a lot bigger than that. But that means $1 billion in sales per year for the industry. So that's every year.

Owen:
So if you know that it's $1 billion for the entire industry and a company comes out and it's got $500 million, which is half that, you know that it's got 50% market share. Does that make sense? Yeah. So it's got half of what the market is. Also, just be mindful that when you come across these industry reports from the company, the company will pick the best industry report that suits their narrative. So it might be like I saw one the other day and we covered this in our Value Investor Programme, which is a company that did buy now pay later. And they said, "We're targeting millennials in the United States." And then it did this huge bubble and it showed a footnote to U.S. census data. And it had their tiny little number of users and this gigantic bubble of the number of millennials in the United States as if that entire market was their opportunity. That isn't like... It's so far-fetched.

Kate Campbell:
Yeah. It's interesting, when you look at the slide packs for some of the companies that they use for their analyst presentations and things, and they're like, "I have this multimillion dollar total addressable market." And it's like companies got such a niche product, it's not going to reach every single adult between the age of 20 and 40 in Australia.

Owen:
No, I once saw an Australian... Well, it was a U.S. but it was listed here in Australia by-now-pay-later company. And they said, "Our market size is $4.5 trillion." I don't know the latest figures, but I would say that's more than two times the entire Australian GDP. So everything that's created in Australia, it's twice the size of that. And that's what they put in their documents for investors. And so sometimes you just got to call absolute BS. And the best way to do that is to not... You can look at what the company is reporting, but go beyond that, look at what you find independently of them.

Owen:
And just be aware that everyone has their incentives, the industry reporters or analysts, they've got to present a good industry report, but they might be working for someone that has an

invested interest in that. And same with the company. They want you to think it's enormous. So to your point, maybe if you look at a company annual report, make sure that the first thing isn't the look how big our industry is. Make sure it's, here's how we've performed financially first, then they put the industry report in.

Kate Campbell:
Yeah. And it's a good reminder when you're doing this research, looking at the sources and the fine print and who actually commissioned the research-

Owen:
That's it. Yeah.

Kate Campbell:
... and things like that.

Owen:
For sure.

Kate Campbell:
Which is important during the research that you're doing, just take the headline figures. I always enjoy on Twitter when people share statistic or chart crimes where companies have just completely manipulated numbers. So like the 35% looks a lot bigger than the 20%.

Owen:
Yeah. So they'll have like two columns or a bar chart next to each other and they'll show the distance, like the step up, looks like it's like a fourfold increase, but really it's like 1% higher. It's because they change the axis on the graph. My old physics professor... Physics teacher, sorry, would say, "Always read the axis before you read the chart to understand what's actually being shown." Same for investing.

Kate Campbell:
Yeah. So that's the fourth step, having a look at what the industry, the company sits in is, is it growing? Is the company actually part of that growth? Is it piggybacking on it? And what's it going to look like over the next 10, 20 years? Have you done some research into the greater addressable market and industry itself?

Owen:
Yeah, because you want it to be growing.

Kate Campbell:
Yeah. And the fifth thing on our checklist, which we're going to touch on briefly, but that's probably something we'll leave to some other conversations is more about the financials, the more complicated stuff. Well, probably from my perspective. So it's what is the company's valuation?

Owen:
Yeah. So this is straight out of Warren Buffett Playbook. It's out of basically every-

Kate Campbell:
You're obsessed with Warren Buffett, Owen.

Owen:
Yeah. This is the first instance I brought him up during this chat. So this is pretty good.

Kate Campbell:
Probably not this week.

Owen:
Not this week and probably not today. So with the valuation piece, what we're basically saying is okay, with the first four checklists, we looked at circle of competence, what does the company do? We looked at is the industry growing? Does it have a competitive advantage? Are the management team align and are they good? So those four things are like we're looking for high quality companies, right? So impressive companies, not just your run of the mill companies. So that's great. But if we only look for those four things, we would end up with just really expensive technology stocks probably, because everyone wants to own fast growing companies with great CEOs that are [inaudible 00:27:20].

Kate Campbell:
We're all looking for the next Apple.

Owen:
That's it. Yeah. But how do we bring that back to reality? Well, we have to make sure that we're paying a reasonable valuation for the company's shares. And so this is where things get a little bit more technical. There are different heuristics or rules of thumb that you can use. You can go to Yahoo Finance, your brokerage account will have information on this. I use something called the TIKR, which is T-I-K-R, T-I-K-R, not T-I-C-K-E-R. And that's basically a database of all company financials. And so what we're looking for here are a bunch of different things. When we say valuation, we're not looking for low PE, low price to earnings ratios. That's something that's very common in the finance industry. We're not saying like, "Which is the cheapest stock?" That's not what we're trying to find. We're trying to say, "Given the company's quality and how fast we expect it to grow, are we paying a price that is reasonable, knowing that there are things that we know and knowing there are things we don't know?"

Owen:
And so like with Xero, for example, Xero, you couldn't compare Xero with Apple because they're two totally different companies and totally different industries. One of them's massive. One of them's big, but not massive. And so you have to use the right tools for the different companies, but basically you want to buy something for less than you think it's going to be worth in the

future. So that's it. And the longer you invest in a good company, typically, the more the valuation improves. So people tend to think when they're new to investing that the valuation is like a dollar and the share price is a $1.10, but the valuation doesn't change. The valuation does change as the business gets better and it grows, the valuation of that company goes up. So Apple is worth a lot, lot more today than it was 20 years ago when it only had the iPad and the... Sorry, not the iPad, the-

Kate Campbell:
Before Apple Fitness.

Owen:
Yeah. Before Apple Fitness. Yeah, before Kate was sucked into Apple Fitness. So we're looking for companies that can grow and their valuation can increase, but we don't want to pay... Another good example is lithium. At the moment, what we're seeing is people are like, "Oh, it's got this fantastic tenement out in rural, who knows where it's got?" It could have 100 million tonnes of whatever, but it hasn't actually built anything yet. So that might sound great. And it's a really good story, but you've got to take into account how much it costs to build a mine, how much it costs to get the concentrate from the mine site to the port that it needs to be shipped across to wherever. And that's where the valuation piece comes in.

Owen:
So you're crunching those numbers and you're saying, "Yes, it's still worth it." And that's what we try and do as analysts. And we'll dive into more of that in future episodes. I don't want to bore you too much detail. At the end of the day, there are some really easy ways to put your finger on this. We've got some free courses on this as well. So please go and check those out if you're interested, but we'll go through more of this in the future episodes.

Kate Campbell:
Yeah. Especially when you unpack Xero.

Owen:
Yes. When we talk to Raymond, we'll talk more about how we did evaluation of the company.

Kate Campbell:
Because all of this really needs to be applied and it's something you learn by doing.

Owen:
Yeah. And you're going to make mistakes, like with valuation. I teach this now, but when I started, I thought I still knew what I was doing, but I definitely didn't. And then a few years after that, I still thought I knew what I was doing. I definitely didn't. And now I still probably think that I know what I'm doing, but it's a learning progress, right?

Kate Campbell:
I hope you do now.

Owen:
A learning process. You get better at valuation. You get better because what happens is you identify patterns and that pattern recognition is what separates people that have experience from not because everything looks great on paper, but there are uncertainties in investing and you get to recognise what's a big leap and what's not a big leap. And you can do your valuations in an environment where you acknowledge that things aren't perfect, but that's okay.

Kate Campbell:
Awesome. So there's quite a few things to go through in our checklist and we have a whole PDF, multi-page PDF for you that's free in the show notes. So you can actually have a proper read through this yourself and start taking some notes if you choose to go through a company, but at a high level, it's looking at what the company does, who's actually running the company, who's in the zoo, what's the company's moat, what's their competitive advantage, what makes them stand out from their peers? Is it in a growing industry and having a bit of a look at the company's valuation and what the share price currently is, what the company potentially is valued at? But that will be explained further through application in our Xero deep dive episode.

Owen:
Yes, it will. So there's five things. You don't have to go into heaps of detail for your first one, just apply the checklist, have a go and to see where you get to. There are many different case studies out there that you could choose. Like you could use any of the companies that we mentioned in the podcast. And then come back when we speak with Raymond, we'll go through it together with Xero.

Kate Campbell:
Yep. And so if you have any questions from this episode or any throughout the series, email us at podcast@rask R-A-S-K.com.au, subject line, shares month in capitals-

Owen:
Yeah, please.

Kate Campbell:
... just for Owen. And we'll go through it a little bit more. And if you want to share what you've done, feel free to do that. And we've got our Get Started Investing and our Value Investor Programme as well if you want to look into this in a bit more detail.

Owen:
Yep. So those are both available on Rask Education. Value Investor Programme is a paid course, but the Get Started Investing Course with Equity Mates is free. So go and check those out, enrol today. Kate, this is the start of Shares Month, by far our most popular month on the show, so I'm excited.

Kate Campbell:

Closely followed by tax.

Owen:
Closely followed by tax. Let's not talk about that until during-

Kate Campbell:
It's too early.

Owen:
It is way too early. All right, Kate, as always, thanks for joining me.

Kate Campbell:
Thanks for listening, everyone.