Owen Rask: Hi, I'm Owen from Rask Australia. Thanks for tuning in to the Rask Network. Before we get into today's show, there are a few things we have to go over. Firstly, what you're about to hear and see is limited to general information only. It's not personal financial advice like you get from a financial planner. Also, it's important to remember that past performance is not indicative of future performance. That means that anything that's happened in the past or we say today is not necessarily going to reflect what happens in the future.

Lastly, please consider that any of the guests or myself, who are featuring on this program, may have a financial interest in some of the products or shares mentioned. That's enough from me. I hope you enjoy today's program.

Nathan, thanks for taking some time to join me on the podcast.

Nathan Bell, CFA: No problems, mate. I wish I'd have been a bit more casual about it with casual Friday T-shirt.

Owen Rask: It's Friday, recording in Sydney. It's a lovely day too, so it's all about the rays and the skin for me, mate. But not really, I'm a Victorian, so the sun is allergic to me. It's my pleasure mate having you here and looks like you're at home in a nice shirt. I'm in the office in a casual T-shirt, so there you go. You may not remember this, but we actually met in passing many years ago when you were with a prior fund. And we're talking global companies and the like, and you really stood out to me as someone that articulated messages really well and thought really clearly about investing.

So I'm really excited to go over some of that ground but also a lot of the other stuff that I don't know about you. But maybe to get things started, I got a few quick fire questions here if I may. And these are a bit of fun, bit of tongue in cheek. So the first one, Nathan, is, if you could pick one skill to achieve expertise, to get to that level and you think, "Okay, I'm pretty good at this." You know that 10,000 hours test, so not invisibility or something, what would it be?

Nathan Bell, CFA: Look, I think we already have all these superpowers as humans that we just are unaware of. It's a bit like the INXS song said, "We all have wings but some of us don't know why." And I think those superpowers are things like independent thinking and having grit and determination. And they're all the things that get you anywhere. And so, I can't come up with something, anything particularly interesting, but I find that just not giving up... I really gave up at 30 on getting a job as an analyst, as an investor and I was all set to move to Melbourne. I quit my job and I was about to go and my wife said to me, "Shouldn't you find out about that job at Intelligent Investor, where you've had about five interviews?" And I said, "They would've already hired me if they wanted me."

And I sat there at my desk at Deutsche Bank, I hated my job, I just hated it. And I've been in account for 10 years and I hated every minute of it. And I said to myself, "You might as well go and find out." And then I got off with the job, but it was a 40% pay cut and I had a wife and a child at a young age. I was 30 years old, didn't have any money and that was a really big decision. And I actually got sacked by my boss about 12 months in and then within 18 months I was the CEO of the business. I've been learning the guitar for two years and I find it just comes down to the grit determination to keep going. And if you don't have that, you're not going to get anywhere with anything.

Owen Rask: I love that. That's great. You've already got it, so I really like it. Second one, mate, is a bit of a false choice, but if you could only choose five companies, but they're public or private, so you could only have five private or five public and you had to hold them for at least 10 years, which way would you go?

Nathan Bell, CFA: Private enterprise, so I've seen this, I'm not going to answer this whole question cause we'll be here all day, but I've been involved in Intelligent Investor since 2006 and before that I'd worked at two very large companies. One was Carter Holt Harvey, which some people might know is a forestry company and based in New Zealand, and that was a very big company. And then the second one was Deutsche Bank, which was actually the largest bank by assets on the planet at one point, before the GFC, when it quickly eroded and become one of the smallest investment banks on the planet, at least equity wise. And I've seen, just the bigger the company is, the more responsibility you've got and just the tougher it is. It takes incredible people and I think an incredible type of business and just behavioral traits to go from someone who's very skillful at something and starting a business, to then becoming a manager and growing a large business. They're just completely two different things.

In terms of a private business, I just personally have no interest. I don't want to be involved in a private business, but if someone comes along and says, "Look, just invest a certain amount of money." And essentially, pre-IPO for example. My wife's in a very good little business at the moment and she's got some equity in that, which is a competitors to Baby Bunting and they going really well. So that's probably the first eye opening or private experience I've had with a private business. And I imagine that business is going to go very well, I'm very confident in that. But the thing about listed companies is when something goes wrong, you can have your money back in two days. That liquidity is just enormous to me. And the types of businesses that you can buy on market, even though it seems like there's less great businesses today than there ever has been because they're just getting taken out and taken off the market.

Personally, I just much prefer they're listed businesses, and obviously it's a huge bias because that's what I've done for so long now. But just that liquidity when something's gone wrong to get out, whereas when you're in a private business, if something goes wrong and you either have to adjust your whole business or you're just fighting against a trend that you cannot turn, that's a horrible situation to be in and I would never want to be in that. So I'll go with my list of companies. Rather than pick all the companies, I'll just say, "Generally, this idea of long term investing is really difficult, I think, in the modern day, even more so than it's ever been." Because the great businesses, at least the business we used to think were great, but things are changing even for fundamental... Sorry, more simple businesses like Coca-Cola or Gillette, these business have got competitors now. Now you've got boutique ways to buy razors and cheap way to buy razors and you don't necessarily need four blades on every razor, as people are finding out.

So you don't need to keep paying all those sort of prices. Coca-Cola has only done any good in the last 10 or 15 years because of water of all things. And now you've got a ESG and it's pressure on the cans and the wastage and the bottles. Things are changing. To sit there and say you want to own a business for 10 to 20 years is just such a difficult thing to say. And we'll probably going to talk about this company later, but it's interesting. One of the things I think has been very helpful to Macquarie Group, which has really just used to be an investment bank and now it's more of a fund manager, but that ability to take money and invest it where you think you're going to find the best returns. I guess you'd call that flexibility or nimbleness, whatever you want to call it, is really valuable in the modern world, a bit and it's unique.

You don't find many businesses that can do one thing and then go and do something else. But I think that ability where you can find something small where you can be a bit agile, they're the sort of traits you're looking for. But other than that, that diversification you can have in the portfolio is just a great bonus. And being able to sell and get your money back, give me a list of businesses any day.

Owen Rask: I like it, mate. Very well rationalized there. I like it. Second last quirky question which is, I don't know if there's a quick take on this one, cause we could go for days on this I'm sure, but in your opinion, does short selling work?

Nathan Bell, CFA: That's a great question. I haven't seen many, if any, great fortunes made with short sellers. It might be a part of their strategy, but all the huge monies made on the long side and that's why you don't see short sellers on the Forbes Rich List, or the BRW Rich List. In fact, if you were to copy those people, generally they own one business and they have everything in it and they're all in, they've got one egg in their basket and they look after that egg. And that's very different from what you get taught in investing, where you have a diversified portfolio and most fund managers and ETFs have hundreds, if not thousands, of companies portfolios.

It depends, really, what you're trying to get out of it. And for me, we talk about swinging for the fences sometimes and I think I'm probably trying to do that personally, but with the funds we manage at Intelligent Investor, I find once you get past 20 stocks the ideas tend to get pretty poor and you're not very excited about them. And the research shows even for fund managers underperform their top 10 stocks actually really perform very well. It's the fact that they're forced to be diversified and that ruins their returns. So I think there's some important lessons there for how you handle your money.

Owen Rask: I like it. All right, last one of these little questions which is, can you describe the macroeconomic environment in a couple of sentences?

Nathan Bell, CFA: Complex. That's one of them. And you can't get blood from a stone. And I think that's what we are learning now, is we've tried these monetary policies where we tried essentially to bend the system because we didn't like having to take long term hard decisions, we didn't want to take that pain. So we bent the system and we did zero interest rates and quantitative easing and now that's snapping back and we're paying the price for that. And that was completely expected and that shouldn't surprise anyone. And we're coming down from a 13 year bull marketing everything it does not stocks. It's almost a bit like the roaring twenties, where just everything went up and everyone's leveraged and now the bill's coming due.

Owen Rask: That's just being realistic, pragmatic, isn't it? It's pragmatist view of things, if you think about that. It's just interest rates lifting all boats. Nathan, you mentioned before that you spent a long time as an accountant before becoming an analyst. Did you have a background, or did you have some sort of grounding in investing or business as a kid or as a young adult, was that part of your DNA?

Nathan Bell, CFA: It's interesting you say that because all I remember, and I don't know what caused it or when it started, but all I remember is always just wanting to be an investor and understanding business. And the only thing I can really think about was my parents were divorced when I was 10. We moved into government housing in country South Australia, Mount Gambier. So we never had any money, you divide no money into two, you have even less. And it was hard. We had no money, but most of our mates were the same. You didn't really notice it too much most of the time. But I noticed it more when I got older and it really drove me to find some other way to have money. All I ever wanted was my financial independence. I didn't want a lot of money, I just wanted to live my way each day. And I knew that I actually wanted 1 million by the time I was 35, because I knew I wouldn't going to work for someone else by then.

And it turned out, by the time I got to 35, a million dollars wouldn't even buy a two bedroom apartment in Sydney, so I needed to aim higher. But in terms of the business grounding, the first one was I used to get up early in my school holidays and go and work with my dad. And he used to drive a truck around the southeast of South Australia, in Western Victoria, delivering Schweppes drinks. And he was a really hard worker and a great sportsman, played state footy for Tasmania, in first class cricket as well. And he would get up at 2:00 or 3:00, 4:00 AM and go off and get the drinks dropped off as early as possible. And I'd jump in the back and sleep and wake up about seven, get a cheese and tomato toasted sandwich when we were almost home. And when we got back to the depo, I'd count the money that we collect back in those days, the $20 or $50 notes to count.

Cash economy. So I'd sit there and count that up. That was my first dealing with money. And my dad always told me, even though we never had any money, how important it was to save. But I even remember just looking around the depo and seeing the different jobs that people had. I knew my dad had to pay for the truck himself. Now, I knew the hardship of what the divorce was like. And I also remember looking at the wooden pallets around the depo. This is over 35 years ago, and thinking "Geez, is that really the best thing they've got to move all these crates around." And here we are four decades later and brambles shows you that, yes. So some things don't change. So there's a lot of business lessons in that and for some reason I was always understood it and I don't know where any investment bug kicked in, but I just always knew, at some point, that investing was this place where if you are really patient and had grit, which I had, I thought I had anyway, and you're prepared to go against the crowd and you could actually do analysis yourself and come up with better decisions than whoever the average investor was.

And if you just hung on for the long term, you made money. And I didn't read any books, I wish I had have. And I just understood that, but I did everything wrong after that. I had the right start, I invested early and then just went off and got my meal tickets and tried technical analysis. And I was more focused on getting meal tickets and I was actually analyzing businesses. And if I told anyone, if you actually want to be an analyst or an investor, don't worry about the meal tickets, just go and invest the money and analyze the businesses. Because if you sit down, if you want an interview with a fund manager, they're going to ask you what your three best ideas are and you need to go through those best ideas. And that's why my CV just never got anywhere. That's why I had to take the 40% pay cut at Intelligent Investor.

Owen Rask: Obviously, that early grounding business, seeing your dad get up early and count the money with him and all that, that gave you obviously an insight into business. Is that where the accounting street came from? You knew you needed to understand numbers to then interpret how investing works?

Nathan Bell, CFA: I was naturally good at numbers at school. I remember in primary school, I used to go up a grade by myself and do their maths, and funny enough it actually turned out to be a falsehood. Because as high school went on and it got harder and harder at some point I just thought I was going to naturally be able to do it. And then I realized in year 12, where I only did Maths 1, so not the super hard maths. And I realized, with a week before the exam, that I actually didn't know what I was doing. And rushed at the teacher and said, "I stuffed it, I just haven't done the work." That was where math got me, but I did always understand the numbers. And to me, the accounting thing was just more practical than anything. I grew up in Mount Gambier, which had 25,000 people and there's no real white collar jobs there.

There's a few insurance agents and there's a couple of accounting jobs and it just seemed... I didn't actually get into accounting. I picked accounting at Adelaide Uni and didn't quite get the score. So I ended up picking just a low thing at Flinders University, and the lowest thing that had anything to do with money was economics. And I could have actually done better, in terms of getting into a high rank course, but I got into my safe card and ended up at Flinders Uni on my own, when all my mates were at Adelaide Uni. And I actually enjoyed that a lot more than accounting. I finished the three years, got accepted to do honors and I really didn't want to do it. I didn't actually think it was going to be very practical, but I got offered a job back in Mount Gambier and I could go back and play footie for my old team and get a bit of extra money.

And so, my plan was to take the graduate accounting job at Carter Holt Harvey and just learn a little bit about business and buffet. Not that I knew he said it at the time, but he always said accounting was the language of business and you need to understand that stuff. And I thought that would be a great entree into becoming an investor and an analyst. It turns out to sort of is, but that old method of going from accounting to investing is broken down, I think. So that wasn't there by the time I was old enough and mature enough, with enough experience to make that move. But that's where it really came from, was really just trying to get a job. Talking about a kid who come from a trust home earning $25,000 in your first year of uni actually sounded pretty good.

Owen Rask: Here's a question for Nathan. If you were to do it again, would you go back... If you wanted to be an investor today, young Nathan, would you say to him, "Go and study accounting. Go and study economics." What would you say?

Nathan Bell, CFA: Definitely the opposite. I'd just say there's so many books out there now, but just go and read three or four of the classics. Actually, you don't even have to read any more than that, the Peter Lynch books. Go and read all the buffet letters. I still think they're the single best ornament to investing and business, just understanding a return on capital and how businesses can invest and they can choose to invest or repay the money to shareholders and what avenues they've actually got to invest, and why is it that some companies end up leveraging up the balance sheet and buying a stupid business that makes no sense and then having to have another CEO come in and fix it up and then they get paid twice as much as they should just to get the best business back to where it was before. Just understanding those things is huge and the earlier you can understand those things... But the things that really helped and we talked about superpowers early on in life. I actually made a little list here. I might actually just read a few of them.

Owen Rask: Sure. Do it.

Nathan Bell, CFA: I think these are the things you need to learn that you won't find necessarily in textbooks. But if you're looking... I think these days there's enough of these books around about psychology and how it relates to investing, that just reading a couple of these books... These are the superpowers of investing and just being able to think long term, independently to own your own mistakes in investing, which I still see adults who just refuse to acknowledge their own mistakes, but when a stock goes up, they take all the credit. You're never going to be a good investor by living that way, or in life for that matter. To be bold and back your own analysis is huge. And I could tell you multiple stories of missing Domino's at $3 because Steve walked past me and said, look at these idiots thinking they're going to be able to sell pizza to the Italians.

And I was pretty green and I was going to take this to our Dragon's Den. And that $3 stock went to 160 bucks last year. And I'd invite, because this superior in the business, who I was going to have to convince him at Dragon's Den, said they were idiots. And I thought, "Well, he must know better than I do, so I'm not going to buy it." So being in an environment around other professionals, you look at them and you're very biased by them. You've got to have the courage of your convictions and I think that's a huge one to have. I can talk about other stocks as well, but to avoid the crowd and even just a couple of little things I put on here, these are superpowers not just for business necessarily, but just for life. But to be able to apologize and having a sense of justice and not be greedy.

I just think, the older I've got, the more I realize how important they are in business and in investing with your staff. As a fund manager, I'm here, I'm managing staff expectations, client expectations, members in a subscription business, management expectations, investors in our business, InvestSMART, which is also a listed business, our board, the ASX, whose listing rules we have to abide by and whose liquidity rules are applied to our portfolios. There's all these groups of people that you've got to manage the expectations for. And I think those other skills, the earlier you can learn those and grow up as an adult... And

I wish I knew of those things and psychology and ancient philosophy, I wish I knew more about those things when I was a teenager. And I had some emotional issues with my parents' divorce and those sort of things.

And I had a bit of a wake up when I was 25 years old and realized I couldn't keep reacting to things with just anger and frustration and not talking to people and things like that. And you talk about being a CEO of a business and a position of responsibility now, I couldn't have been that person at 25 even though I was captain of sports sides a lot. But that was from more from ability than anything else. But if you can learn all those types of things, which aren't just about hardcore numbers, you're an attribute no matter what business you're in.

Owen Rask: I don't even know where to begin to unpack that. But I guess first thing is, thanks for sharing a lot of those details, personal, and I can relate to a lot of them to be honest. In fact, I can just imagining myself as you're explaining them. I think, to be honest, I was saying recently... Actually to Evan and Lucas of all people, that the ability for introspection it's a superpower in itself. The ability to look on yourself and study yourself is just so powerful. And it took me... I'm 31 now, Nathan, and it took me till 31 to figure that out. And I wish I learned it earlier on, because not only would my investing be better, that would be a micro part of it, but my life would be better. And so, I'd understand the world better. And I can relate to so much of what you're saying there.

Nathan Bell, CFA: I think the other one, just the icing on the cake for that stuff, which I've learned more recently is, forgiving yourself. I think we're just so hard on ourselves and we put such huge expectations on ourselves. And I talked about how my dad was a sports star in a way. As I said, he played state football for... Cricket, and my dad never put that pressure on me, but you carry that around, especially in a small town. So everyone expects you to be a good football player, and I was, but I went to Glenelg and never quite made it. I wasn't big enough and didn't put enough into it. But the same with investing in a stock. I just think, I've seen the vitriol that comes out these days and I think part of it's driven by social media. That when you get a stock wrong, it's just the vitriol that comes on us these days is far worse than ever than it used to be.

And you've got to be able to forgive yourself. But I think also you've got to be able to forgive other people as well. And I think that's a really monumental thing to be able to do in life. I've had to deal with friends who have suicided in recent years and they left behind a lot of blame for other people to carry around and they're trying to work through the process of what they did wrong. And the last point of it was actually just to forgive themselves cause they didn't actually do anything wrong, it's just a difficult situation. But I think in business, we've got to be able to be bold and make mistakes. And I think this is why the American economy is still the best in the world, because people respect people who build businesses and fail. And obviously there's some nasty failures where they've done the wrong thing.

But that entrepreneurialism is something I think is still lacking in Australia and we need to encourage more, rather than encourage people to flip homes where they're making so much money but doesn't really add any value to society or to the world. Whereas building a business really does, it hires people. And I've seen a number of people who have retired early because of their investing deeds and then spiral into depression because they've got nothing left. They're just sitting at home doing nothing. They've got no social interaction, they've got no challenges to outperform or to find the next stock or whatever it is. And I think we're going to talk about what would you do with a lot of money, but I've just seen the best and worst of money, and mostly the worst. And funny enough, all I want to do was financially independent.

That's all I've strived for and should have happened earlier. But funny enough, now that I've got here, I thought I would've quit straight away and yet, seeing what other people have gone through. I've seen that quitting is not necessarily the answer, particularly in Intelligent Investor where it's taken a while to get the place going and the team's been together... We've been together for at least 10 years, some of us, and 15 or 16 years, for others. And they valued friends as much as they are part of the team and staff.

And so, InvestSMART went through a tough time through the GFC at... Sorry, through the COVID bust. And now finally everyone's happier. The business is going well. So I don't want to walk away from that, but I'm also just learning more about human behavior and what people have gone through and you've got to really have something driving you because I think Alzheimer's i, the other thing where this falls off. Is people retiring in their fifties and got nothing to do. So they sit down and watch the tennis on TV. And may just be unrelated. But they end up dying early of Alzheimer's. And so, we've got to find these challenges and money's not the answer to everything.

Owen Rask: I love it.

Nathan Bell, CFA: Sorry, it might be deep for Friday afternoon

Owen Rask: No, it's probably the best time for it. And we can just take this into the weekend and let it soak in. I got to say, the Tall Poppy Syndrome, that we have here in Australia, from an entrepreneurial perspective is unfortunate, in that we look at people and we're pretty quick to shoot them down. That's, I guess, a natural human tendency in a way, jealousy and all those, envy, things that come in. But also, I do look at the capitalistic nature of the US, and while I wouldn't be the person that says... That looks at the rich list and says they're the most successful, some people we say, "The most successful," because they're wealthy. I don't necessarily buy into that, but I do buy into the idea of taking risk and being proud whether you succeed or you fail. I think that innovation is what drives society. And I think the reason that businesses exist in the first instance, is because they create value. There's a cost and there's value created above that cost and that is what adds value back into the economy and keeps things moving forward. Does that make sense?

Nathan Bell, CFA: I think one of the worst things that's come out of this zero interest rate era here. If you like or just episode, is that, really the normal rules for business investing didn't apply anymore. And basically there was just so much money going around people could do anything. And it is funny, it's sort of two sides to it. Sometimes you need that free and easy money and the good times to actually start businesses. A bit like a fund manager, if you want to raise money, the best time is at the peak of the bull market when you've got the least ideas. But if you go out there with a portfolio of great ideas at the bottom of bear market, no one will give you any money. So some good things to come out of that, but normally what you see when you've got an interest rate so low where there's just free and easy money and no penalty and essentially the hurdles for business success is so low and the money being invested is so frivolous that you get things like all these Bitcoin and the derivatives.

We haven't really established that many valuable processes for Bitcoin anyway. But all the derivatives, I think about how much money has been blown up in that, for no other reason than speculation. And I think that's the problem with the zero interest rates, at least one of the major ones anyway, is that it stops people thinking about proper business and proper returns and doing something useful and turns into just a waste of money. And I actually think there's been this enormous opportunity lost around the world, particularly in Australia and America, and Europe to a lesser degree, but we could have invested in green energy or building more hospitals or schools or whatever because we could borrow at nothing. And we didn't do that. We just threw money at people, and not completely wasted it because obviously that was some people's income and it's all they had.

But we could've just improved productivity out of sight and done some really useful long term investments for the next 20 years and no one did that. It's not a popular thing to do, it doesn't win your votes, but that's why you're supposed to have politicians and leaders that can stand up and tell you and explain why we need these things and why they're worth doing. And unfortunately, politics is just such a horrible place to be at the moment. And popular politics means a lot of these important things aren't getting done. I don't like the environment we're in. I don't like the way the stock market these days seems to be more of a casino than it's ever been. I think it feels like it's more important than actually building businesses. I don't actually mind seeing Mike Cannon-Brookes and these people actually getting involved in some business and putting some of their huge fortunes into something more useful for society.

Owen Rask: Do you think, Nathan, that as we roll out of QE or maybe fall out of it, do you think though that we will see... So the dust settles and those mediocre businesses, the ideas, the concepts, whatever, they fall to their knees and maybe they go out of business, but do you think then it emboldens those that were built on legitimate foundations?

Nathan Bell, CFA: It's an interesting one. I don't know if this quite answers the question, but I'd say one of the real, I guess, disappointments is when you hear terms FinTech or new FinTech, and you actually have a look at what these businesses are actually doing, buy now, pay later. Seriously, has there ever been a bigger waste of money? And I hear people steal even though the more these businesses lend, the more money they lose. I've heard good fund managers still talking up the management of that business and I just think it's disgraceful. But I see a lot of the new FinTech is just really online avenues for existing business that they're just taking off the banks. So are they creating anything new and wonderful for the world? Well, not really. It's just a quicker way to get alone with more risk.

So I think that's what the disappointing thing is. And a lot of these business will actually survive and do okay. But fun enough, the big banks are actually in the best position to pick these businesses off because to lend money you need a huge balance sheet. And what are all of these FinTechs discovering right now is that they don't have the balance sheets to continue borrowing money through the RMBS market or the banks won't continue to give them loans. So there's a limit to how much money they can lend, but there's also a limit to how much money people can borrow. And if people aren't maxed out at the moment with their mortgage rates about to go up about 35% over the next 18 months, I really don't know how well these business are going to do, but some of them are trading surprisingly cheap. But it's interesting just... I think my key point is what's seen as innovation is really not innovation at all. And I think a lot of these companies that are called tech stocks really don't deserve that name at all.

Owen Rask: I like it. Mate, let's pick up your story again. I'd love to... You mentioned the move from accounting then through to InvestSMART, Intelligent Investor. Can you take us through that period and what you were working on and how it came to be that you work for the business?

Nathan Bell, CFA: Basically, I was an accountant. I went to London for a couple of years just on the old visa, holiday visa, and I did that because I was actually more afraid of moving to Sydney on my own because London seemed to have this whole structure for antipathy and as to work. And I wanted to go and have a look at the world and went to Russia in a few different places. And so, I did that for two years and I actually ended up depressed because I fell out with my dad through that period and you're away from all your mates. And then, the second year there was no spring. So remember, when you go to work in London, all day, it's dark when you go to work and it's dark when you walk out of the office, so it's really depressing. So you really wait for spring to come.

Spring never came the second year and summer was barely a spring at all. So it was a really horrible weather and it really does mess with you. I got pretty down, left depressed, come home, moved to Sydney where a mate who has become a very good barrister in Sydney. And so, my first job was accounting, which I just hated but I knew that's all I was going to get a job doing. And I just kept sending in my CVS while I was doing... I did the Fincher course, to graduate on applied finance, whatever it's called. And then that's Kaplan these days. And I finished that while I was in London. And so then, I'd send my CV and when I got back to Australia, people would say "No, you don't need that, you need the CFA." I was like... It took me forever to finish this thing. And I almost did two streams.

I did the regular analyst one and then I did all the financial planning one as well, bar one, subject, when I finished my CFA and got my job at [inaudible 00:32:16] and I just can't do it. I've never flunked anything my life or completed anything, I just couldn't do it. So I had my job at Deutsche Bank and I had that for maybe two or three years just doing a different accounting, it's not interesting. And I basically just gave up when I was 30 years old, I'd done my CFA by that stage. I failed two levels, which was really frustrating. The second level, I thought I might fail. I wasn't confident, I must have only just failed. But the third level, I didn't expect to fail and when you fail one of those levels you got to wait 12 months to do it again.

And here was me thinking that my whole future opportunity to work as an investment analyst relied on me having this meal ticket. So I was really angry about that, because I'd done a lot of work and it for whatever reason I just didn't get it there. Anyway, sorted out the next year and that was basically the exact same time that I got my job at Intelligent Investor. And it's funny, it wasn't my analysis, I don't even think got me the job. I think it was more that I wrote an article with a couple of jokes in it and because it had a little bit of personality in it and I think there was some clear obviously that I had a financial background probably got me over the line. But when I got in there I actually feel like I... My boss said this to me, I understood the basics of investing well straight up, my writing was terrible and that was part of the reason I got sacked.

But writing's hard. You think learning to be investor is hard, writing exist, it took me five years to be just half decent at it. Still don't think I'm very good at it and particularly against the guys I work with. But once I got in there, I actually felt like I was picking the right stocks. I think if I look back, the worst thing that happened through that period was the culture of the time was esoteric stocks, really finding... I don't know if you've ever talked to Steve at Forager, but the way he invests is that real cigar butt type stuff. And that was really the stuff that was rewarded in the business and I just think that's really, really hard way to invest and it wasn't personally the way I invested, but it kept pushing you into that direction to buy these really low quality stocks, hoping you're going to make double your money or triple your money because it was trading at such a low valuation.

And then, Timber Core went broke and we were all up and down the credit structure, as well as the equities. Then the other one that was similar, Green... Whatever the other timber company was. And that went broke. And I actually attended the, I call it the wake, in Melbourne. Because I'd moved down to Melbourne at this stage because Greg had sacked me. And I was thinking I was going to lose my job. And I went along and there was probably 300 people in this auditorium and I think it was a special meeting that was called and they hadn't officially gone... Great Southern, sorry, it was the other one. And they hadn't officially gone bankrupt yet, but I was sitting there with no money on the line listening to one person put $8 million into the credit securities and the ordinary shares and this thing was worth zero.

So this was a path we sort of gone down as a business and it all blew up in the GFC. It's not that we didn't upgrade Cochlears of the world and some things like that, but I really missed a big opportunity personally because when the GFC came I upgraded a bunch of stocks, like Nanosonics, which ended up being a 10-Bagger CSL, which I remember upgrading at like $32 and thinking, "If this goes well, I could get to $40 in the next couple of years." And I went to 330 bucks over the next decade, never owned a share. Dominoes I passed on, because as I told you the Steve story. And I've upgraded a bunch of great stocks and a lot of members would've done really well following those stocks. But I was stuck in this no man's land of trying to buy this cheap stuff.

And I did okay, but nothing compared to the 10 and 20 times amount of money you made. I'm buying these great businesses at good prices. It was that simple. And it wasn't like I wasn't aware of them. I was telling other people to buy them, I'd been buy them myself, cause I thought it was too easy. Investing can't be this easy. And I think that's the real lesson I've tried to carry around to the team these days is, let's not make it harder than it needs to be. And that's what professional investing really does to you. It tries to put you in a box. And if I just give you a couple of examples, we've got three funds where we've got an income fund, a growth fund and an ethical fund, because their ASX listed ETFs, they all have very strict liquidity require requirements on them.

So you can't just go and buy all your favorite small cap stocks, they're all cap funds. You've got a very small amount of those you can buy and if they don't get you on the market cap size, they get you on the number of shares traded. We even own interest fuel, which is a $6 billion business, infrastructure business. It's worked out great, but because the ASX shares, it's a New Zealand based company, cause the ASX, not many shares trade, it gets caught in our liquidity bucket. So now you've got share prices falling and more shares falling into the small cap bucket. Now, I'm selling businesses I really like just because they're falling into that small cap bucket and this is without any redemptions or anything like that? And I remember there was another small cap fund, which I know it's Altium. I watched them own this and talk about this company from two bucks and it got up to $8 and I think maybe it was a billion dollar business at that stage.

And they loved this business, they knew it inside out, it was everything they wanted. And I'm pretty sure the guys invested in personally made a fortune. But the thing is, when you own those great businesses, what's the worst thing that possibly you could do in a world is sell it. You got to crystallize capital gains. You got to go and find something else to invest in that you don't know as well or it's nowhere near as got a company. And the only reason they had to sell it is cause they're a small cap company. Now that just makes absolutely no common sense whatsoever other than you're a small cap manager and you've told the market that you are a small cap manager and therefore, at a billion dollars, you're going to have to sell these companies. That's just the stupidest way to invest I can imagine.

So you learn these things as you go along. And I sit here now as a 46 year old and those three years I spent at Peter McGregor at the International Fund, I remember probably a month or two in, and I won't go into too much detail about my experience there, but I realized I was actually a better investor than what I'd give myself credit for at that point. One of the reasons I took that job was cause I wanted to go outside... Intelligent Investor was the only investing organization I'd ever worked in and I just wanted to see whether our processes were as good and Peter McGregor had been around for 20-odd years with a good track record. What did these guys do differently? And I realized that it wasn't anything different. We had a good process at Intelligent Investor and I realized I was a better investor than I gave myself credit for.

And that gave me a lot of confidence that from then on, whenever I got my next role or whatever, that I was capable of a lot more than I'd already done. And the returns when I was managing the model portfolios Intelligent Investor's were very good, but it was a very good period to be investing as well, sort of 2011 to 2015, coming out of the GFC. But I just believed in myself a lot more then. So when the time came and I came back to Intelligent Investor, I had a very clear idea of the companies I wanted to own. And I think that's the beauty of the Australian market this is, when you do global, it's just never ending. It's always 50 more stocks to look at and you end up just paralysis analysis. I think there's just too much to choose from and there's never any work.

Plus the hours are different, plus there's quarterly reporting and there's always another 50 stocks in another country you don't know about to go and spend some time on them. But to me, because that experience of watching the CSLs, the Domino's and Nanosonics. You didn't have to take big risks to make huge amounts of money, but the earlier you can find those businesses, the better. And so, that's really what I try to drive it. Intelligent Investor is, keep it simple, find the stocks we like, keep an eye on valuation, stick to the quality, but let's try and find two or three new big winners every year. And whether that's an automate or a frontier Digital Ventures or an RPM Global, which I think are probably the cream... Or an MA Financial are probably the cream of what I think are the safe, more reliable small cap stocks, saying that about Frontier probably a stretch at the moment, but they're the sort of business can make an enormous difference to your portfolio.

And then, this year we bought coal stocks, or two years ago we bought coal stocks. And obviously we didn't expect Whitehaven to go to $10, but occasionally you just get these incredible bargains. And again, when we first upgraded it, Gaurav said buy at $1 and sell at $3. And I thought, "Well, I can probably buy other stocks that can do better than that." Now I've got this downturn coming, they'll be business can go up 10 times. Well, take the opportunity while it's in front of you because... It's probably the lesson because he's, him and another friend of ours has made millions out of this. And it just goes to show, you never get them all right, you're going to miss things and you got to live with that. But I just think investing is always a challenge, but as soon as you try to complicate it or try to get blood out of a stone by taking on margin loans or putting too much in that risky thing, it catches up with you pretty quickly.

Owen Rask: Obviously, there's so many things we could pull in there, but one of the things is obviously Australia being a smaller pond for you to fish in, and you said two or three new ideas a year is great. How do you go about... I guess in the initial sense, Nathan, just for folks that are new to Intelligent Investor, what are the characteristics of businesses that typically end up in the portfolio? Do you have screening filters or anything like or metrics that you look at as a rule of thumb?

Nathan Bell, CFA: A lot of that stuff I probably just do in my head or I just know that I don't think about on a daily basis. But I think this is probably the one thing, if I could just tell people I wish someone had told me early is, if you've got money early on, just buy the best business you can find and don't worry about the rest. Just buy the best business and the more you save, put more into it. Or if you want to diversify a bit more as you get a bit more money together, buy the second best business or the third, but don't go buying the 20th best or whatever. Those great rare compounding businesses, just focus on them and nothing else. And that's the advice that Charlie Munger gives to everyone. Basically he's only owned two stocks, he's Berkshire Hathaway and Costco.

And Costco, depending on how you look at, is arguably the greatest retailer ever or certainly one of them anyway. And it's just that compounding over time that just creates the magic. So the question then is from people, "Well, how do you find the best business?" And it's actually pretty easy. I say it's easy now, but obviously when you're starting out from nothing, it's just trying to look at what's good business is difficult. But there are a couple of attributes. One, it sounds so blindingly obvious, but just buy the best business in the best industry and buy the market leader, very occasionally buying the second best in an industry can work out, like Fisher & Paykel Healthcare is sort of the third operator against ResMed and Respironics for sleep apnea products. So it's very good business. That's a rare one though. It's very rare that the second, third player or anything as good as anywhere near as good as the first player, but be prepared to pay a premium for these businesses.

And that's where a lot of people go wrong, trying to buy statistically cheap stuff. But these businesses have traded a premium for a reason. And the reason is, what you want is a company that doesn't pay dividends but has so many investment opportunity in front of it that they're going to earn high returns on when they reinvest that money and can keep doing that for long periods. And that's essentially what the definition of compounding is. And so, this is what I think the magic of CSL is in, Brian McNamee, who was the CEO there. And I thought this is sort of the magic and the difficulty of CSL as well is, over the years I've heard from lots of people who own shares from 1992 that they bought, it was a dollar or $2 or whatever it was. There's no way in the world anyone, and even anyone who worked in that business, knew what CSL was going to become.

Even 10 or 15 years ago, you didn't know what it was going to become today. It's just got better and better and better. And as time gone on, the business has got better and the competitors have gone away, certainly less of them. So there's a lot of luck involved in investing, but that to me highlights that it's not obvious always, the great business aren't obvious, but the ones that are great, just they invest for the long term, they're patient, they're not doing risky acquisitions, they're not doing debt fueled acquisitions, they're not trying to force anything, they're just trying to staying within their financial means, but they are investing for the future and they're prepared to wear financial pain in the short term to make those investments. And I think that's where the magic is in CSL, because a lot of the investments they make are for 10 years ahead and they have no guarantee of whether those investments are going to pay off.

And that's really the magic, because there's an article I read a long time ago where Brian McNamee said it's actually his chief scientist who I think... Might have been his last name was Fraser, said, "He's the magic person, he's the one deciding how much money I need and what investments I'm going to make, not knowing what the payoff is in 10 years." Whereas that's very different to, let's say, Coca-Cola, which is famous because Buffet made so much money out of it where they've got this incredible distribution network all around the world and all they have to do is just keep expanding the network and keep increasing their marketing. So that's much more predictable than CSL's. And CSL share price with nowhere for five years. Again, it just shows incredible patience to be able to hold to that period. Because I actually tell people, "I couldn't have done that." Get funding enough. Frontier share price is almost back to where I bought it six years ago and I think it's a 20 times better business it was when I bought it, but the share price isn't saying that.

Owen Rask: How many of these great businesses do you think are currently available on the ASX? Even if you don't own them necessarily, how many, roughly, would you think that they are out of the 2,200 stocks or whatever?

Nathan Bell, CFA: My guess is 12 to 15. That's it. There's no more than that.

Owen Rask: And so, I feel like if there's only 12 to 15, I feel like you've almost got to own them. Once you find them, you've got to stay with them.

Nathan Bell, CFA: It's so hard, and I said here and a bit of a mentor for mine and a great read, if anyone wants to read quarterly, by far the best quarterlys ever written is Tony Scenna at Selector Funds Management. They're getting pretty long these days, so people want to have the patience to go with them. But for the Australian market, these are the Buffett letters, they're incredible writings just in terms of the detail. And basically, he owns a portfolio of the best of the best. And I try, I have my little Tony Scenna on one shoulder when CSL gets a bit expensive or whatever it is. And I still have that bit of the value investor, I think, mentality of valuation matters. And I struggle to hold onto really expensive things because I'm always backing our team, which is five people, to find another idea.

And so, that's a bit different to personal investing where a mate of mine whose dad, I think was the number one waste management guy in New South Wales and sold his business, I don't know whether it was Veolia or he sold his business to Veolia. And so, he buys stocks and refers to them as collectibles. He buys like ARB, the four wheel drive company, parts and accessories, and he collects them, so he has no intention of selling them. And that business hardly grew for about eight years. And then, all of a sudden during the COVID bust, earnings double and it signs up all these new agreements with Ford in America and all sorts of things. And just there's something in that patience. You do get rewarded, but you don't get rewarded all the time. And that's what makes investing really hard, but particularly as a professional, because it's crazy, here we are trying to put portfolios together for the next five to 10 years and we get measured every four weeks.

And if you don't measure up, you need to explain yourself, and that's really difficult. And I always remember the quote from Mike Tyson, of all people, who says everyone has a plan until they get punched in the face. And everyone's a long term investor until something goes wrong, whether it's a bear market or whatever. And then everyone's just about, "What have you done for me lately?" And so, we are really lucky at Intelligent Investor that we're not managing billions of dollars. We've got an investor base that understands what we do and has been with us for a long time and they are generally long-term investors. I'm sure not everyone is. And I'm sure there's a whole bunch of them that are enjoying the ride we're giving them at the moment, but if you've got a client base like that it just makes all the difference.

Owen Rask: There's a business. So let's talk about... I don't know if this is one of those businesses that fits into the 12 to 15 you said before, but a business that you emailed me earlier on, which is MA Financial, is that the business? I've never been into it.

Nathan Bell, CFA: This is the old modulus. [inaudible 00:49:31]

Owen Rask: Tell us a little bit about this business, Nathan, and I guess how you think about everything. I think this just would be a really good illustration of your process and the way you apply these ideas and strategies for thinking and investing better.

Nathan Bell, CFA: So there's a great story by Charlie Munger, who read one of the financial magazines for 50 years. And so, through that 50 years, in 2001 he finally bought a stock from all the recommendations after 50 years. And I think he turned something like $10 million into $80 million. I think the company was Ten and Co., which is an auto parts supply, which looked like on the surface it was going broke, he didn't think so. And he bought a heap of shares and a heap of bonds as well, which are trading at a third of par value, so it was like a 33% yield or something. And the business recovered and so he turned his, I think, it was like 10 million to 80 million. And then he took his 80 million and gave it to a guy, I think his name, Lee Lou, he's a Chinese investor. And Lee Lou turned the $80 million into $600 million or something.

So it's just, how do you find ideas? Well, you read the magazine for 50 years and finally found one. You just keep reading things, you don't know where the idea's going to come from, but I always read small cap managers because reports the ones that I respect because they occasionally find a small cap I haven't heard of yet. And this one fund manager owned this, what was called Moelis, and I think it listed in 2017. So it was a fairly new company as far as the ASX listing was concerned. And I just listened to it, learned a bit about it and it ticked all the boxes. And it wasn't cheap enough to buy, it was pretty small, but then we got COVID and the share price just collapsed. And it didn't make any sense to me. It had no financial problems whatsoever. The background to the company was... There's an article you can read, old article, in the fin review, which is really illuminating.

A guy called Andrew Pridham, who was investment banker, had met a guy called Ken Moelis in America. And Ken Moles was actually somewhat famous for running a somewhat small investment bank, but I think he'd done some monstrous deal with a Saudi Arabian company, I think maybe he floated the [inaudible 00:51:53] brass or whatever that enormous company... Was the biggest float ever in history. So I think that's what made his name... Anyway, Ken Moelis said, "Look, I want to back you and I'll start you up in Australia." So they started this business in 2009 called Moelis where Ken Moelis or the parent Moelis Company had, I think, maybe had 40% of the shares or something. And

Andrew Pridham, along with his two understudies, they own most of the rest of the shares. So they just kept ticking away. I'd never heard of them while they were a private company.

But when COVID hit, I was aware of the stock, I was aware of the business and the share price had gone out like a dollar 29. And I think I bought a few shares, I didn't buy many cause I was all in Frontier, which has gone nowhere. And Moelis ended up going up to $10. Talk about frustrating. It was quite illiquid, couldn't buy it for the funds, I tried but it was just too illiquid. But the things I really like about the business was, here were these guys, the founders who were in charge, there was three... There was actually almost dual management. There's dual management today, where the two CEOs share the role, which is quite unique. I'm always interested in when people are doing something unique cause it just says they're thinking about things differently. Sometimes it might just be clear they're doing something dumb or too greedy or something.

But this just sounded really sensible, where he had the sort of top dog training up his two youngsters. And so, they're very experienced now. And basically what the business is a mini Macquarie. And so, everybody knows Macquarie and everyone sits there goes, "Geez, I wish I'd bought Macquarie in 1990." Well, here you are here, here's COVID bust, here's Macquarie in 1990. And same type of business in the sense that it's an investment bank. Recently they represented... They made $37 million out of representing James Packer through this recent ordeal with Crown Casino alone. Obviously that helps, but they do other stuff. I won't go into all the different bits and pieces, but essentially it's little investment bank or boutique fund manager with this growing funds management business on top of this investment bank services. And so, that's a really nice place to be in.

We've seen overseas that one thing I think really helps people is to look at what other businesses have worked well in the world. And if you look at some of the biggest business in the world that have done incredibly well and continue to do incredibly well, is Brookfield in Canada, AKR, Apollo. These are massive fund managers with just billions of locked-in revenue. And Macquarie basically turned into that, took that path during the GFC when people might remember they had the old Macquarie countrywide and all those highly leverage satellite businesses that were just ripping people off basically and leverage to the hilt. So when that model bust, they turned into funds management, which was perfect because assets were really cheap and now they're essentially a fund manager rather than investment banker. And the beauty of that model is it's scalable. You can just continue to get big and grow even when you're already a very large size.

So that's essentially, I had the insider ownership, which is really, really important to me, because it just gives you a lot more confidence. It doesn't mean you've got to buy every stock with the inside owner running the business, as anyone who's owned Harvey Norman for the last 15 years will tell you. And that share price has gone nowhere. And Gerry has perhaps probably harmed that business as much as he's helped it. But it's something I really look for when you find the ARBs, even CSL, it wasn't inside owner. Like Brian McNamee used to sell all his options when they came to you every year, which always surprised me. But he managed that business like he owned it, which is quite unique. So that insider ownership really matters to me, because you want these people with their own money on the line. Because they think long term, they create balance sheets where they can't be taken over and they don't manage the balance sheet for the maximum profits today.

Because that's a risk when you go into a recession that you go out of business. And you can see it, you can read it, if you follow on for long enough, you can just tell in the language how they're building these businesses. They're really patient. And essentially they invest in their businesses the way we invest our client's capital, is just patiently for the long term. And there aren't many of these businesses around, but interestingly enough, if you think about it, most small cap stocks have to have the founder in charge because that's how they list the business to start with. So it actually gives you a really good head start, particularly over professional managers because there aren't all that many small cap managers around. A lot of them have gone out of business recently, particularly through recession. Small cap managers, they go out the side door quicker than you can blink.

And there's even less value investors around now too, than what there's ever been. So you've got this part of the market that sits, I wouldn't say unexplored, but certainly there's less exploration going on than what there has been historically. So you can find the next MA Financial or the RPM Global or Frontier Digital. The thing that these companies have in common is that they're business models that we understand. They're business models that we think can scale. So scale's just a fancy word for saying they can continue to grow at high rates as they get bigger, and they get more profitable because the costs don't expand as quickly as the revenue does. That's really important, particularly for a software business. Or the ultimate in scale is like a fund manager who you don't need an extra analyst to manage an extra dollar of revenue.

Every extra dollar of revenue goes straight to the bottom line, refer to that as operating leverage. You could have bought Magellan, it was like 50 cents during the GFC, they got to a hundred dollars or something. Again, another founder-led business. The characteristics are very simple, healthy balance sheet, profitable business and proven business models run by founders with their own wealth on the line and that's basically it, and everything offered that. The three pegs really are just valuation, quality of business and quality of management. There's nothing new in investing, there hasn't been anything new in investing in a hundred years. Buffett and everyone else had this stuff figured out a hundred years ago. The only thing that's new with every cycle is the participants, and they're the people we want to take advantage of because people are still as short term as ever, still greedy as ever and still want to get something for nothing and that will never change.

Owen Rask: I love the Jason's bottom line, that he's paid an annual salary to say the same thing 200 different ways a year. But one of the pegs there was management, do you ever meet with management?

Nathan Bell, CFA: I'm not a big fan of it. If you are a rated fund, you'll never get rated unless you go and tell them that I'm spending every day of every week going to meet all these management teams. The reason I don't like it is because they can't tell you anything that isn't publicly available anyway. I think when it is actually really important is with the small caps, you can actually go and learn a lot about the business, because it's potentially a new business in a new industry you don't know anything about. But I don't need to go and meet with the CEO of a casino company to know what's going on in there. It's on the front page of the news for a start, but it's a very simple business to begin with. And I've been doing this for three decades now, so I don't need to meet with the CEO.

I can tell from their actions and what they're saying, what's going on, but it can be useful. And it's finding those new companies, but there's just so much. You're not at a disadvantage not being able to talk to management and you can actually get the commentary from the updates usually somewhere online, I know you definitely can with the international stuff. But again, if you keep things simple, there's only so much you need to know. And it's funny, I remember Buffet and Munger shared this story about how they went and met a manager and they were so freaked out by this guy, they just couldn't put a dollar into this stock and the stock went up like tenfold. And because my wife has worked at Baby Bunting and I've seen how the staff get treated in there, there's no way I could invest in that business yet. It's probably an all right business.

There's all these strange things that investing about your own biases, but I'm sure people probably look inside investments some days and go, "What's going on in here?" And you look on that side and it's just a boring fund manager doing pretty boring things. But it just all depends on your point of view. But I don't value meeting management, I think, how a lot of people do. I think valuation matters a million times more than that. Understanding the business is crucial and if you need to understand the business, you're probably going to get a quicker phone call from the CFO anyway. And personally, I'd much rather my CEO was working than fielding calls from fund managers like me. Last thing I want in the world to be doing is focused on marketing, marketing the share price.

Owen Rask: I was telling you before that I went and saw a company down here at south of Sydney today, it's going to be on the podcast soon, this is a traditional manufacturing business. And I said to the CEO... It's a hundred mil market cap, so it's a small company. And said to the CEO, "How many people do you get coming through a year?" And he's like, "Maybe one or two." And I'm like, "Well, what about funds and whatever." He's like, "They might, maybe every now and again we have a call." So this is the Frontier of these small caps. No one really understands what's going on because no one's bothered to go and have a look. And that's where I get value from it, because I'm learning about a business in a new industry. But I would say, overall, I've probably been sold more than I have learned from those experiences, if that's fair to say. I've got a question, a bit of a primed question, Nathan, which is then you've been doing this a long time. Who is one of the better capital allocators, from a management team perspective, that you've come across?

Nathan Bell, CFA: I think CSL, which I already talked about, is the best I've seen. And I think just because of the difficulty... One of the greatest stories I ever heard, I talk about trying to find something unique. So Brian McNamee had testicular cancer and was laying in bed getting treated, but at the same time he had made a bid for a company which started with a T, I can't actually think what it was called, Teletricks or something like that. Anyway, this would've really consolidated CSLs position in the US and he raised, I think it was, like $2 billion or whatever it was, from shareholders to make the acquisition, which is rare anyway, because you don't normally see that. Normally you see a company just goes and borrows a crap load of money and makes this aggressive acquisition and maybe there's a share raising to go with it, but that's not normally how things are done.

And that to me was unique in itself, because buying with equity and buying with your own equity equities is a safe way to do it. Because if it doesn't work out, you don't blow up your business. Whereas you take on the debt, you are risking up blowing up whatever good business you've got underneath or maybe it's a bad business but who knows. It's a sort of doubly bad business that's going worse. And so, that was unique in itself, but then the US government or the regulator said, "Look, no, we're not going to let you buy this business, because your market power just be too much." And so he said, "Okay." What you normally see in these situations is, the CEO of the business goes, "You know what?" Because the CEO is always trying to make the business bigger so they can get paid better and they can get their rewards and their bonuses.

So that's always happening. That's a difference between the founder and what I call the commercial CEO mentality. And so, he said, "Look, this is shareholder's money, we're not going to keep this money, it's not ours. They gave us this money for the acquisition, we're going to return it." And so he said, "We're going to return it through a share buyback." And so that's what he did. And there was also part of that story... Remember this was going on while he is in bed getting treated for cancer. He said, "A lot of other CEOs would be very stubborn." They'd been told no, and then they'd go and fight it in the courts, because he really wanted it, it was a valuable acquisition. And so, he didn't do that. He was actually pragmatic and said, "You know what? It's fine, let's not go and battle this. Just give the money back to shareholders and get on with our life."

And see yourselves, it has probably gone up eightfold since then. So to me, they're really unique characteristics of a capital allocator there. Capital allocation is such a fancy word. I sort of hate the financial lingo that we use sometimes, but particularly when you're doing a podcast or a video for people who are trying to learn and you just use words. The capital allocation is just how you spend the profits, but that's really important. And the reason it's important because I think the statistic is something like over a decade, 70% of the value of the business comes from how those profits are spent. Let's let that sink in.

Owen Rask: I haven't heard that. That's great.

Nathan Bell, CFA: Basically, all the value of the business over the next decade comes from how those profits are spent. Not making those profits, but how they're spent. So that's capital allocation, and decision is absolutely crucial. And that comes back to that... Feeds back into that finding businesses that can actually do something useful with that money. Because if there's not nothing useful to do with it, they've got to return it to shareholders, which is fine. If they've got nothing useful to do with it, that's what you want. So essentially that's what the banks do. They can't lend all their profits, so they pay back these dividends and we get the franking credits and that's fine. But then you find other more ambitious risk taking CEOs who just want to reinvest that money in just trying to make the business bigger for the sake of getting a bigger bonus and they're the companies you've got to avoid at all costs. And usually you can tell, because they call the acquisitions company transforming. So they're actually telling you to sell.

Owen Rask: If you could go to dinner with one investor and one CEO, if you could get them both together at the same time, who would you go with?

Nathan Bell, CFA: I have no idea, even though you gave me an hour to think about it. But I'll tell you one story, it's even more interesting. I can't actually think, who wrote Poor Charlie's Almanack? Can you remember? Peter Kaufman?

Owen Rask: I'm going to Google it.

Nathan Bell, CFA: We actually met him one day. So we went to California and he has a little business just outside, I guess it is LA but it's sort of quite out of the CBD as such. And we went and sat with him for four hours and had lunch with him. So this guy, for people who don't know him, Poor Charlie's Almanac is a very famous book and if you don't know Charlie Munger, he's very quick with it but doesn't tolerate fool, is a nice way to put it. And Peter's the same. Peter has had met Charlie and he actually some questions to Charlie and they ended up getting along and they became friends. It was a pretty hard thing to do, because it's hard to be friends with Charlie. Because there's not many people he lets into his circle. He's just whip smart too.

And so, he wants to be mentally stimulated. So if you can't do that, he probably hasn't got any time for you. And sitting with Peter, one thing he told us, which is really interesting, and he said Berkshire had done deals with 3G, you might remember probably a decade or so ago. And he didn't really like the culture of 3G, whose culture was really to buy businesses, cut costs dramatically, improve the margin. I guess a bit of a private equity type style of investing, even though it's sort of funny to say investing when they're just ripping the guts out of these businesses and loading them up with debt, taking the cash out and then trying to pump these business onto some other poor sucker. And he really didn't like that. He thought that was really against Berkshire's culture. And I thought that was really interesting. Because Buffett and Berkshire, no one has a better record than them.

No one's done more for, I think, people how they view business or investors or how to learn or anything. But it was interesting to sit there with someone who was friends with them and openly criticized them amongst us for. And he talked about, actually if you wanted to get rich and in a really good living, he said, "Look for these small businesses," now this is America, so small businesses, he was probably $500 million or a billion dollars and he actually add a lot of value that way. And he was perfectly happy with this seemingly little business, off the radar, living his life and just every day trying to get extra productivity out of his business. And we just don't have, I think, that entrepreneurial flare or I don't read much about it anyway. I'm sure we do have plenty of entrepreneurs, but it's not the culture in Australia, I wouldn't have thought.

I think you have to battle pretty hard to grow a business in Australia and we tend to flip houses more than build businesses. But that was a really great opportunity to talk to someone who was much smarter than I was. And also, enough was enough. He didn't need to be a multi billionaire, he just enjoyed the process of business. He enjoyed the process of thinking and learning and looking after his staff. That's a great way to live. We don't all need to have a hundred million dollars to live well or aspire to that. And I could talk about, I've seen the worst of money. So to find people that just are passionate about whatever it is they're doing, it wouldn't even... I don't have any names, but the people I'd be interested in and not even investors anymore. I started reading Reminiscences of a Stock Operator two days ago and I think that's the first investing book I've picked up in five or six years or something.

Cause I don't really want to learn more about investing. I want to learn more about people and how they behave. And there's people doing a lot more interesting stuff than investing. I feel like a robot these days. It's expected. I know what I have to do in certain situations, because you're just so well tuned after doing it for 30 years. So it sort of takes a little bit of the excitement out of it, but that's what happens when you... Same with the guitar, you got to be careful, I think, after you get so good that you lose the feel and you just become robotic and you're not creating anything anymore. And so, in terms of investors and CEOs, I'll pass, mate. I'd rather have a beer with you.

Owen Rask: Well, I look forward to that, but that's a cool story sitting down for four hours. It's funny how you can just lose time with some really great people when they give you the time. That's really special. So you mentioned a few... You've touched on this a few times, Nathan, earlier on you said you just wanted financial independence, and there you just talked about this guy that he's happy to run his own race and you just do what he wants to do and kind of design his life. If you had a bucket load of money, you had a truckload of money, would you still do the same thing then?

Nathan Bell, CFA: The interesting thing is, I became financially independent a little while ago, not that long ago, but enough to live off. We don't have a fancy house or anything like that but my wife earning a lot more money now than I ever thought she would, so that's just completely changed our lives. And we could live off her wage now cause we have pretty minimal expenses and your life tends to get a bit cheaper and less... Aside from our kids. You're not just sort of going out and doing the fun things that you used to anymore. So fun enough, your budget shrinks a little bit in that respect, but obviously gets taken up by your kids. But I enjoy what I do and I think if you are asking me five years ago, I think I would've said I just would've quit by now and just managed my own money.

But it's taken a while to get Intelligent Investor, and I've been in this business since 2006, and it's taken ages a long time to get this business to something that's actually a lot more exciting and sustainable. And I think we're only just scratching the surface with our funds business. The returns are great. I really enjoy the people we work with, they're great people and it seems a shame to walk out of that when things are finally, after all these years, starting to go well. But I enjoy the people more than anything, that's what keeps me there. If those people weren't there, I wouldn't be there. I still enjoy their challenge of investing. It's the greatest drama in the world probably other than politics if you're into that. But in terms of actually doing anything different, I've got plenty of time to learn the guitar and I go to the gym every couple of days, although I procrastinate for two hours before I do it, I get to hang out with the people I like and I can't really ask for anything more than that.

There's no other real big challenges out there. And managing my own money actually sounds pretty boring these days. I had all these plans, I was going to follow the formula one season around the world. But you realize that we've kicked our elder son out, but we've got twin 11 year olds and they need to go to school. So I can't go anywhere anyway. I think for the next few years the challenge is still there. I enjoy investing and, at some point, I'd like to, as I've talked about before, elsewhere just in my flash apartment looking over Bondi at some point. A hundred million dollars is going to make no difference to me. And the research shows that once we're really earning about, I think it's like $50,000 a year in income, our increase in happiness is marginal at best. And as I said, I've seen the worst of money and large amounts of money seem to cause more problems than opportunities for most people.

Owen Rask: The department looking over Bondi would be nice though. I can admit. Mate, there's a heap of ways that people can get involved with Intelligent Investor. There's a funds, which is great. And there's subscriptions, Intelligent investor is a sponsor, supporter of the show. So I'm super grateful for everyone's support and for your support coming on today. I would direct everyone to the Intelligent Investor website. You can have a look at all the different funds, three different funds, but you can also have a look at the subscriptions. There's a link in your podcast player if you want to go and have a look at some of Nathan's writing as well. You do the monthly and the quarterly updates and all that sort of stuff. And it's all on the website, which is fantastic cause if you are looking for 12 to 15 of these names on the ASX, the way I think about it, I'm doing a plug for your business here, Nathan, but just let me go for a sec. The way I think about it, the old Buffett thing, I could go from A to Z on the ASX, probably just filtering out a bunch of speculative minors and all that and get down to maybe say 700 companies.

But I could probably shortcut a lot of that and just start learning from guys like yourself, Gaurav, the team. And I think, no matter where you are on that investing journey, save yourself some time, go and read what these guys are putting out. And I think you gave yourself a bit of a harsh rap before. You are a bloody good writer, mate. And I know there's some great writers in the business, but don't discredit yourself. So go and check out Intelligent Investor, it's all in the show notes there and you can hear more from Nathan. Mate, I got one more question, which I'm really interested in. I think you've brought a lot of these to the table anyway. Throughout this conversation I can tell that you think independently in a lot of facets of life, but the one question that I have it kind of forces you to think a bit critically about the way the world works or even the investing or business world works, which is what's one thing that you believe that most people would disagree with you on?

Nathan Bell, CFA: Should have done more preparation.

Owen Rask: Should have given you more than an hour.

Nathan Bell, CFA: I think this is really boring. This is really boring. But I think one of the biggest mistakes young investors can make, and I made this too, was just to focus too much on popular financial statistics. Price to earnings ratio is a classic. It tells you very little, really does. A price to earnings ratio for Woolies or Coles, where it's a very stable business and doesn't grow very much. It gives you a quick idea of what is implied by the valuation. But I think it's easy to use the financials as a crutch. And the biggest mistake I made early on, and I'm glad I just thought of this, when you come, particularly, to a professional organization where investors have been doing this for a long time, you're very scared about making a mistake. So my boss would always ask me why I was so slow doing my researches, because I was reading every footnote in the annual report.

Cause I did not want to miss anything. I didn't want to make a mistake. So what that actually typically does is because when you're just the average Joe, who pays no attention and someone gives you a tip, you don't want to be that guy just giving you a tip and just no real information, it's just a speculation. But what you do on the flip side is by being so careful and focusing too much on numbers for example, is you don't think so when I was sitting there with CSL thinking, "Okay, it's $32. I think this is a really great business. It's got some short term issues that people worry about, but I think they're going to go away and I think it'll be $40 stock then." I wasn't imagining what could this business become in 10 years? What could this business become in 15 years? With Domino's, could Domino's go on, be successful in Europe and then go to Japan and then become the number one Dominoes franchise on the planet?"

I just wasn't thinking that big. Because you don't want to be that idiot that sounds like an idiot saying this stock could go up 20 times over the next 10 years cause you sound like an idiot. And all the other brokers, they're got all their numerical assumptions around the same figure, because they don't want to look like an idiot either. Because otherwise, people won't invest with them. And if they're wrong.... I haven't helped them, if they're wrong, they lose their job. It's a, old saying, it's better to succeed conventionally than to fail unconventionally. So that idea of really think, just sit alone in a chair and think about, "Geez, what could this business become in 10 or 15 years?" And that's how you have a much better idea of what businesses have the potential to compound your money at 15 or 20% a year or whatever that great number is. But you've got to think, you're not going to read it in the book, you're not going to read it in an annual report. You've just got to think by yourself and just imagine. And that's the skill and that's really hard. But if you've got that and you can apply that to the great businesses, and you can buy them at a discount, and you've got great management, you can't lose money over time. You just can't.

Owen Rask: That journey that you just talked about, there's something that I see very often, particularly in investors that are two to five years in. Once they discover these tools, it's like, "I got all these tools in my toolkit." And I'll just go in and just do all these things on all these little details and get really into minutia and you really get stuck in it. And then, you're like... But there's conflicting signals. You're like, "But this one says that is not growing, and this one says it is growing and this one is..." "This is good and this is bad." And you just freeze. And it's like, no, just step back, look at the business, look at it and just think where could it go? I think that's the art of investing.

With writing, let's come back to that for a sec. With writing, a lot of investors, if they're doing their own investment thesis, they're writing it down in a Google document or whatever they're doing. What if they're new analysts? They tell you everything. They tell you, "Here's the thesis and it is a university's thesis on this small cap company." Just give me the 300 word version, tell me what you actually think.

Nathan Bell, CFA: That's spot on. So I always say I'll pick this up from somewhere, but just what are the three things that matter? That's it. You do all that work, to work out what the three things that matter are. And they're pretty obvious. You can get lost in the weeds very easily, it's called paralysis of analysis. But just work out what the three things that matter are. Make a judgment call. And what does Peter Lynch say? "If you can't explain what a business does with the crayon, then you don't understand it." Just stay away. But it's that discipline, that behavior. Steve said to me when I first started Intelligent Investment, I walked in the door, he said, "Investing is 80% behavioral or psychological and 20% analysis." And if you've been wrong on anything that 80% is probably 95%. And funnily enough, the older you get, the more experience you get, it's probably 99% and 1% analysis.

Because I've already done the analysis, I know what these businesses do. So, it's just about discipline, patience, and at the moment, no one's got any patience. People at the moment, they're just looking for the inflation going down, interest rates going down, the Fed pivot and then we're away to the races. And no one's got patience. No one want to think that this might go on for two years or more, which I think is quite likely. Is slowly, very slowly given the slow transmission of interest rates. Because we've got people on fixed mortgages still going out a couple of years. This could be quite a slow downturn and people will hate that. People can deal with the bandaid getting ripped off. They can't deal with a thousand cuts. It's really painful for people, particularly in investing. So patience is the key on top of all that.

Owen Rask: Nathan, awesome chat. Who would've thought Friday hours could be so illuminating, mate. I really appreciate you taking the time to share some of your wisdom, not just with me but with everyone listening. It's awesome. And everyone go check out Intelligent Investor, you'll find Nathan there. Mate, thanks again for taking the time.

Nathan Bell, CFA: My pleasure, Owen. Any time, mate.