

EPISODE 1364

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FT: So Money is brought to you by CNET, the site that shows how to navigate change all around us. So Money episode 1364, the best investment moves to make right now, with Adam Seessel, author of *Where the Money Is*.

AS: *You know, over the last 100 years, American stocks have been the surest way to grow wealthy slowly over time. So you just have to ask yourself, do you believe that, you know, in 5, 10, 15, 20 years, American business is going to be more profitable, more prosperous or not? If you think the answer is no, then you shouldn't be in the stock market. If you think the answer is yes, then you need to own a piece of that action.*

[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. You may be wondering what to do with your investments right now, and the short answer is do nothing. Our guest today is Adam Seessel. He's the author of the very new book, *Where the Money Is: Value Investing in the Digital Age*. Adam is a successful investor, and he contributes to Barron's and Fortune magazine. This book offers modern investors what they need most, a fresh value-based guide to making money in the stock market right now, which as we know is dominated by technology stocks.

But rather than walk through how to stock pick during this episode, Adam and I talk about what to make of the current stock market volatility, his definition of value investing versus growth investing, why it's not a wise move to make any moves in your portfolio right now, even though you may be concerned about the direction of the stock market. We get into crypto because, well, I was curious what he thought about this emerging asset class. An important and timely episode with Adam Seessel, here we go.

[INTERVIEW]

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FT: Adam Seessel, welcome to So Money.

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AS: Thank you, Farnoosh. Thanks for having me.

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FT: Congratulations on your new book, *Where the Money Is*.

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AS: I appreciate it.

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FT: I can't wait to find that out.

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AS: Okay. Well, let's get into it.

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FT: Yeah. So subtitle, *Value Investing in the Digital Age*. Before we dig into it, I just would love to get your take on all of the frenzy we're seeing in the market right now. S&P 500, 20% off its recent high or recent, I should say, in the last most recent high high, I guess, pre-pandemic. So what do you think? A lot of people are panicking. Often people ask me, "Does this mean we're

going to be in a recession?" I say, "Well, you're looking at the wrong barometer." But what do you think?

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AS: Well, I've been doing this 25 years, Farnoosh, so I've seen my share of major and maxi crises. Look, they're never fun in the moment, and I'm as human as everybody else. So I compare it to sort of combat. You never really get used to bullets whistling around your head, but you do learn how to fire and maneuver during difficult times. As you've said in previous podcasts, times that are down, you at least want to hold and/or think about buying because, as you've said, the market goes up over time.

As I say in the book, every crisis is different in its particulars, but there's one constant, which is the essential narrative boils down to this. The world is going to end. So far, it hasn't.

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FT: I'm so glad you're optimistic at least.

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AS: Well, yeah. I don't think the world is going to end. That's the good news. But in the financial crisis, the financial system was melting down. In COVID, it was that no one was going to transact business with anyone ever. These kinds of situations set you up for a wonderful binary decision because either the world is going to go to hell in a hand basket, finally, or we're going to muddle through. So I'm voting for the ladder, and I'm very optimistic actually about my stocks in particular going forward.

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FT: I would love to learn more about how you're investing these days. You have a new value investment paradigm. But before we talk about the new paradigm, what was the older model that you trusted and built in many ways your business became a name in the industry? When

we talk about value investing, which is what your book is all about, how do you define that these days?

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AS: Well, historically, value investing is 100-year-old construct started by a scholarly guy named Ben Graham, who was sort of a prodigy at Columbia University as a young man and had to go work on Wall Street to pay the bills. His father was dead, and he was the breadwinner for his mom and his siblings. So he came to a Wall Street that was filled with speculation. One of his early jobs was taking bets on the 1916 presidential election. It was perfectly legal for a New York Stock Exchange listed brokerage house to play bookie on the 1916 presidential election.

He said, "This is crazy." He was statistically minded, and he needed to make a living. He did not need to speculate. He didn't have the money to speculate. So he set up the system where basically, by reading financial statements, he could sort of tease misevaluation out of the market. So while others were going on sentiment, he was triangulating between price and value, and the way he did it was to focus on hard assets, inventory, factories, receivables. This was what I call value 1.0, paying attention to what a company owned, what it could liquidate its assets for. It worked in the very crazy speculative time of Ben Graham. Of course, it really worked in the depression, when many, many companies were selling well below their liquidation value.

So his prized student was Warren Buffett, who came out of Columbia Business School, having learned from Graham this system, and he changed it in the late 20th century to one that was much more focused on business quality. The world after World War II is much more stable than the crazy Wall Street of Ben Graham. So he came across businesses like Coca Cola and Gillette that had durable franchises and could kind of grow earnings and profits to the sky precisely because they were insulated from competition, because they had a competitive edge or what Buffett would call a moat.

That's value 2.0, and I used these systems successfully in the first 15 or 20 years of my career. Then as I say in the book, my system five or six years ago rather suddenly stopped working, and I needed to reevaluate.

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FT: What wasn't working any longer?

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AS: Well, especially the first method wasn't working, Farnoosh. The hard asset-based approach was not working. More broadly, focusing on legacy companies that were statistically cheap, and I'm using air quotes, what was not working and is not working in this digital age because the world has changed. Business quality is so important these days, and we're in such a pivotal point in the economy that it really is only a slight exaggeration to say that as a company, you're either on the right side of the digital divide or you're on the wrong side.

Freight car companies, oil and gas exploration companies, those will do okay. But I don't think anyone believes that fossil fuels, for example, has a long and prosperous future ahead of it. So you don't want to really be involved in those sectors long term. I know they're doing quite well in the short term. But long term, tech is where the money is.

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FT: So with that thesis, you're probably not surprised to see that socially responsible investments, now that we have the data and at least now, what, 20 years' worth of data to look at and say this is actually a winning sector and will only continue to thrive as you point out fossil fuels become, well, extinct, hopefully. One can hope.

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AS: Right. Yeah. I mean, look, I don't use any specific ESG screen. I use a good business screen. What I say in the book is companies like Google, for example, or Alphabet, they naturally understand what their customers want, and they don't want polluting industries. They don't want to exploit their workers. So I don't explicitly use ESG governance screens, but I

generally want companies that are on the right side of history and treat their employees and shareholders and stakeholders fairly.

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FT: Now, you have to understand. I think you know this. A lot of our audience, we're not picking stocks, right? We're not cherry picking. We are fine investing in our company-sponsored retirement accounts. We have brokerage accounts, maybe a little bit of Robinhood trading going on out there. But as I like to think maybe I'm naïve. I like to think that that is just maybe more for fun. Or they're putting the majority of their long-term investments. Let's hope not.

What's your message to young investors today? Or I shouldn't say even just young, like new investors because as I'm learning, sometimes the new investors are the older investors. They're getting a late start for a variety of reasons.

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AS: I think my message would be quite simple, and the same message that Ben Graham had 100 years ago and Warren Buffett had 50 years ago and Peter Lynch had 30 years ago when he wrote his investment bestsellers, which is that over the last 100 years, American stocks have been the surest way to grow wealthy slowly over time. So you just have to ask yourself. Do you believe that in 5, 10, 15, 20 years, American business is going to be more profitable, more prosperous or not? If you think the answer is no, then you shouldn't be in the stock market? If you think the answer is yes, then you need to own a piece of that action.

So stocks over time over the last 100 years have gone up roughly 9% a year, which means you double your money every eight years. If you have 15, 20, 30 years, that's a lot of doubles and for the power of compounding to work. So my first message would be the stock market has been and will continue to be the place to be, just because it's a collection of businesses, and American businesses are the best on Earth and know how to make money.

Now, if you want to get more granular, then you say, "Well, okay. Stock market, I could take the average and just buy an S&P fund." Or I could say, "Well, what sectors are going to do the best?"

Inside of those sectors, what companies really have an edge?" Most companies are doomed to fail or at least to be mediocre because competition is so vicious. Like you see this with Netflix now, right? Like everyone said, "Oh, Netflix is the leader and so forth." Well, you got a half a dozen people. They're going to spend billions and billions of dollars a year trying to nip it their heels, and that's capitalism in a nutshell. That's why it works because everyone's competing to please the consumer essentially.

Now, there are a couple of companies out there, though, that have moats, that have this Buffett concept of moat around them. I would argue that Alphabet, which is down big today, has a moat of 95% share in search. Like who's going to catch it? You and I are going to start a search company. I mean, Amazon tried, failed. Microsoft tried, failed. I mean, so I personally recommend what Peter Lynch recommended a generation ago, which is identify superior businesses, buy them in the stock market, and then hold them, and let the power of compounding do the work. Because even a business that grows two or three percentage points a year faster than the market, that compounding will add up over time and make you much wealthier.

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FT: So Alphabet, i.e. Google, clearly a favorite of yours. I liked how you walked us through the logic there. Can you give us some other examples, and maybe the ones that we aren't already talking so much about, right? The Facebooks, the Teslas of the world. Not to say that those are your favorites, but we think of market weight too. Those stocks are the heavy hitters. They're the bellwethers now. I mean, also like what is the Dow composite going to change?

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AS: Yeah.

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FT: Another show.

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AS: The Dow is always behind the curve. They're always trying to catch up, and they only have 30 stocks. So it's hard to hard to get it right, but you're right there. They are always behind. But, look, in some ways, it's quite simple, Farnoosh, and you almost need to think like a 12-year-old. Like, "Okay, stocks are the place to be historically, so I should either buy an index, or I should try to find superior businesses. Okay, how do I find superior businesses?"

Well identify ones that obviously have a competitive edge. I've given you Alphabet. Amazon, obviously, has a competitive edge in e-commerce. Then as you say, there are dozens of others that are lower, sort of second tier smaller tech companies. So two that I like a lot are Intuit, which does TurboTax and QuickBooks, and then Adobe, which owns the sort of creative space, online creative space. I mean, if you're making marketing tools on the Internet, you're going to Adobe. It's kind of like Google in search. So you almost have to think extremely naively. I think people overcomplicate the thing.

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FT: In terms of as an investor, when you see the signs of a recession, how does that change your approach to your investment portfolio, if at all?

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AS: Not at all, Farnoosh. I mean, we're going to have bad times in the stock market. I got bad news for you. It ain't all going to be a walk in the park. Investors who can't stomach occasional downturns like the one they're having, we really have no business being in the market. I hate to be harsh about it, but you just need to sort of develop a strong stomach because this is in the nature of markets.

Over the last five years, my client's money has almost tripled, and now we're down probably in line with the market, maybe a little more. So now, we've gone from almost tripled to more than doubled. Like what's the problem? Especially when we own businesses like Alphabet and Amazon, like in 5 or 10 years, are they going to be bigger and more prosperous? Almost

virtually certain to be the case. So we're compounding. We're growing. It's just not in a straight line. Recessions happen. Life happens.

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FT: They happen over a dozen times since World War II. But the good news is that periods of growth are more common, and they last longer.

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AS: Correct. That's right, and you get into this whole behavioral economics and behavioral theory, where the pain of losing is so much greater than the happiness of winning. So you go from having \$100,000 to having \$300,000. Then your \$300,000 on paper temporarily becomes 250, and you're freaking out. Like wait a sec. You started with 100. Things –

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FT: That sounds like a normal person to me.

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AS: Right. You do have to train yourself at this one. This is not normal behavior, and I've had 25 years to train myself and what Buffett calls being adversely emotional. I give some tips in my book about how amateurs and pros because pros need it as well. How we can train ourselves to be basically tough and stay the course.

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FT: When you talk about value investing, and I've had a little bit of experience reporting on the financial markets early in my career, you almost have to always talk about in the context too of, well, or against growth stocks, growth sector. I bring this up because as many of us then go back to, let's say, our retirement plans to make sure we're diversified and that we've got the

good allocation, that we invest in value but also in growth. So maybe spend a little bit of time talking about how you define growth sector and where does that fit into this paradigm, if at all.

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AS: Sure. Well, I hate to blow your listeners' minds, but the economy between growth and value is one of the red herrings in the finance industry. I understand how the distinction came about. It came about precisely when people like me were trying to explain to investors we invest this way or we invest that way. But the best investors, Warren Buffett being the best example, say there is no distinction between growth and value. Growth is a component of value. All things being equal, more growth is better than less growth, correct?

Then it becomes a question of what are you paying for that growth. So I think it's a huge false distinction, especially in today's digital age, Farnoosh. This is really what caused me to write this book is – Like when is Amazon going to return to normal? Like what's normal for Amazon? Like they sell as much stuff as Walmart. Like in 10 years, what's that going to look like? Are they going to be selling as much stuff as Walmart? Okay, they're a growth company, but they're also enormously valuable because they're growing and because their growth is protected, so to speak, by the moat.

I say in the book, don't confuse a growth company with a valuable company. Look at GoPro, all the selfie sticks, and, “Oh, those are so cool.” Yeah, well, everybody else and their brother figured out how to make a selfie stick, and their profits imploded because they had no moat around their business. But Amazon has a moat around his business, which is no one's going to be able to copy their infrastructure. So they're enormously valuable because they're going to grow a lot and their growth will be protected, if that makes sense.

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FT: Right. I wonder if the Internet muddied that bifurcation a little bit because 25 years ago, Amazon was a growth company. It wasn't established like Walmart.

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AS: Yes, that's right. That's an excellent point, and I make that point in the book. I say that Alphabet and Amazon are the General Motors and Coca Cola of our generation. They are here to stay, they are battleships, and they are going to grow for probably another generation. So they're enormously valuable franchises precisely because they have such a long runway of growth. In many ways, they are analogous to when Buffett was buying coke in the '80s. It's like who's going to compete against coke? Who's going to compete against Google? It's impossible.

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FT: Some are betting on crypto as the next Amazon and Google, and people are making that similarity between where we were with dot-com in the late '90s and early 2000s, and where we are with cryptocurrency today. What is your pulse saying?

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AS: Well, let's play this out with a Socratic exercise.

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FT: I have no answers, Adam.

[00:20:56]

AS: Yes, you do. Yes, you do. You're a smart woman, Farnoosh. What is cryptocurrency? What is Bitcoin, for example? What is Bitcoin?

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FT: It's a digital currency.

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AS: Right. I agree with that statement. What is the function of a currency?

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FT: It's a form of trade, in exchange.

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AS: Right. Means of exchange.

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FT: Exchange value.

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AS: And a storehouse of value, right? Is Amazon a means of exchange and a storehouse of value?

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FT: Insofar as it takes my money every hour.

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AS: Right, right. No. See, a cryptocurrency may be an awesome invention. I'm not a crypto hater. But at the end of the day, it's just a currency like any other currency. Like what I invest in the dollar? No. Why? Because the dollar is kind of inert. It's stagnant. It can't open new locations. It can't grow profits. It can't add customers. Bitcoin can't add customers. In fact, through its bylaws, it's fixed in terms of the number of coins.

Adobe has no fixity in terms of how many customers it can serve and how much money it can make. Intuit doesn't cap the number of QuickBooks customers it conserve. So these are

dynamic, growing, changing businesses, whereas a currency, whether it's gold or the dollar or crypto, just kind of sits there and looks at you.

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FT: The blockchain, though, has some legs to it.

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AS: Sure. The blockchain sounds very useful. But no one's saying that Bitcoin is going to value, is going to grow because blockchain company ABC is going to use it, and it's going to grow. No one is making that argument.

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FT: This new era of investing that we're in, Adam, we have a lot of new, young, novice investors who their first investment was because of a meme, right? Then, of course, with the technology where it's at, with the Robinhoods of the world, investing on a whim is very easy to do. So do you think that this has been helpful or hurtful in the long run to investing? Because on the one hand, you want to get people in. But the method by which you've been doing it, the platforms by which we've been giving, the tools are not always, how do I say –

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AS: Salutary?

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FT: Yeah. So what's your – How do you feel about all of this? Yeah, I just wanted to touch on that a little bit too.

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AS: It's a good question and a complicated question. As I say in *Where the Money Is*, I have no problem stipulating that the stock market is a game of sorts. It's one reason I enjoy it. It's challenging. But you have to understand the nature of the game. It's a very long-term game. It's a game about who has the edge over 5, 10, 15 years. The short term, anything can happen. So if you want to play that, that's kind of like roulette, and you might as well go into a casino. I go into casinos. I like playing in casinos. But I understand the rules, and I understand the nature of the game.

To gamify the stock market via Robinhood and the meme stocks and stuff, without doing your sort of Ben Graham due diligence and thinking through which business has an edge, really does a disservice to all investors, young and old, because it misunderstands the game. There's so many speculators who've lost fortunes by playing essentially a game of musical chairs. They just wait until the last chairs, but then they miss it.

I tell the story in the book of Jesse Livermore, this famous speculator who made his fortunes speculating on this and speculating on that. But then he lost it a couple of times too and in 1940 put a bullet in his head in the cloakroom of The Sherry Netherland Hotel because he just couldn't take it anymore. So you want to get rich slow. You don't want to – If you want excitement, go to your local casino or get on your sports betting app. It's illegal in New York.

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FT: Yeah. Throw some darts. Go for it.

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AS: Yeah, do something else.

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FT: So what I've learned in our short but jam-packed time together is that, one, you got to think like a 12-year-old.

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AS: Yes.

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FT: I can do that.

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AS: Good.

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FT: Think of growth as a component of value, not as two separate things. We didn't talk about this, but I read in your book that you call – One of the ways that you characterize investing, there is no deadline in investing. I like that a lot. Because I think it's a hopeful statement that you can – My interpretation of that is that it's not about your timing but your time in the market. That's important.

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AS: Yes. I think that's a very good insight. If you look back at previous “crises,” in quotes, like the financial crisis and the dot-com bust and the pandemic, and you look back at those as long-term chart of the stock market, they really look like little kind of valleys. They're just like little valleys on the way to long-term growth of American business, which is all the stock market is. So it really helps to just take the very long-term view and kind of settle into your traces and just get rich slow basically.

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FT: Adam Seessel, really great to have you. Given all the noise that's going on right now and the stress and the uncertainty, I think it's important to revisit history and provide some logical

advice, some calming advice. I really appreciate your book and your visit to So Money. Everybody, check out *Where the Money Is: Value Investing in the Digital Age*. Thanks a lot, Adam.

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AS: My pleasure, Farnoosh. Thanks for having me.

[END OF INTERVIEW]

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FT: Thanks so much to Adam for joining us. His book, again, is called *Where the Money Is*. The link is in our podcast notes. Thanks for tuning in, everybody. Back here on Friday, answering your money questions. If you have any questions or thoughts for me, please email me farnoosh@somoneypodcast.com. You can also direct message me on Instagram. As always, if you liked this show, please leave a review, subscribe, and share. I hope your day is So Money.

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