

Podcast Summary Episode 904 – The Disciplined Investor Podcast

Guest Segment – Ryan Zabrowski

Quick recap

Andrew and Ryan explored various aspects of investment strategies, including risk management, market analysis, and technical indicators, with Ryan sharing insights from his book and professional experience. The conversation also touched on portfolio rebalancing techniques and concluded with a discussion on the potential impacts of autonomous driving technology on transportation and real estate markets.

Summary

Ryan's Investing Experience and Book

Andrew and Ryan discussed Ryan's extensive experience in finance, including his time in the Marine Corps, his work at Wash U Endowment, Morgan Stanley, Merrill Lynch, and Krillogy, and his passion for investing. Ryan shared his motivation for writing a 500-page book on investing, inspired by the teachings of Warren Buffett and Ben Graham, and his desire to pass on his knowledge to future generations. Andrew praised Ryan's book for its ability to explain complex financial concepts in an understandable way, and expressed his desire to delve deeper into some of the topics discussed.

Adjusting Risk in Investment Environments

Andrew and Ryan discussed the concept of consistent risk in investing, with Ryan emphasizing the importance of adjusting risk levels based on the investment environment. Ryan argued that investors should take more risk when there's more opportunity and less risk when there's a higher probability of a major market decline. He also highlighted the importance of sentiment analysis in investing, noting that optimism is generally bad and pessimism is generally good. Ryan further explained that sentiment data is less predictive at predicting bull market tops but more accurate at predicting bear market bottoms. Andrew agreed with Ryan's points and suggested that the concept of risk could be likened to the use of sunscreen, where one adjusts the amount of protection based on the environment.

Understanding Market Trends and Valuations

Andrew and Ryan discussed the importance of understanding market trends and the need to adjust investment strategies based on the time horizon. Ryan emphasized the role of valuation factors in predicting future returns, especially over a longer time horizon. He also highlighted the significance of technical analysis, sentiment, and market health in making investment decisions. Andrew agreed, noting that markets can remain irrational for a long time and that there could be unseen reasons for current trends. They also discussed the book "Time Ahead" by Ryan, which Andrew recommended for further reading.

Technical Indicators in Stock Analysis

Andrew and Ryan discussed the use of technical indicators in stock market analysis. Ryan explained that technical analysis is more effective when applied to larger data sets, such as entire markets, rather than individual securities. He also noted that technical analysis can help prevent premature reduction of risk and excessive capital allocation during market declines. Ryan emphasized that technical analysis can work well in conjunction with fundamental analysis, particularly in the early and middle innings of a bull market. Andrew agreed with Ryan's points and expressed his fondness for price base indicators.

Market Profile and Algorithm Integration

Andrew and Ryan discussed technical aspects of trading, specifically focusing on market profile and its application in identifying significant price levels. Andrew explained the concept of market profile, which involves analyzing volume and price to determine where most interest has been concentrated. He also mentioned the use of algorithms to identify 'unfair highs', 'unfair lows', and 'points of control'. Ryan expressed interest in this approach and indicated that it could be incorporated into their existing algorithms. Andrew agreed to share some charts demonstrating these concepts.

Rebalancing Investment Portfolios and Risk

Andrew and Ryan discussed the concept of rebalancing in investment portfolios. Ryan explained that rebalancing is necessary to maintain a predetermined risk level, as investments fluctuate over time. He differentiated between calendar-based rebalancing, which is common but not always efficient, and standard deviation-based rebalancing, which considers the volatility of investments. Ryan also mentioned the idea of strategic risk, which is the appropriate level of risk for achieving investment objectives over a long period. The discussion also touched on the importance of being aware of potential bad actors in the financial industry and the need for a fiduciary standard.

Autonomous Driving's Impact on Society

Ryan and Andrew discuss the potential impacts of autonomous driving technology. Ryan believes autonomous driving will revolutionize transportation and make car ownership largely unnecessary in the near future. He predicts that within a couple years, self-driving cars will be as safe as human drivers and costs will plummet, making ride-sharing services far more economical than owning a personal vehicle. Andrew agrees this deflationary force from technology holds great opportunity. Ryan also notes major implications for real estate markets as commute times become more productive. The two seem aligned that this emerging technology will bring profound changes to many aspects of life.