

The Disciplined Investor Podcast summary for guest segment with Vitaly Katsenelson

TDI Podcast 909 (02/23/2025)

Quick recap

Andrew and Vitaliy engaged in a wide-ranging discussion covering personal plans, investment philosophies, and market trends. They explored the concept of sideways markets, historical stock performance patterns, and the challenges of finding value in current high-valuation markets. The conversation also touched on the impact of technology and AI on investing and life, as well as the importance of aligning one's work with deeper personal values.

Summary

Personal and Professional Conversations

Andrew and Vitaliy discussed their personal lives and upcoming plans. Andrew shared his upcoming trip to India and his work commitments, while Vitaliy expressed his satisfaction with life. They also discussed their professional lives, with Vitaliy sharing his role as the Chief Investment Officer at Investment Managed Associates, a value investment firm in Denver, Colorado. Andrew highlighted Vitaliy's educational background and his teaching experience at the University of Colorado. They also touched on Vitaliy's appearances in various financial publications. The conversation ended with Andrew expressing his desire to delve deeper into various topics with Vitaliy.

Evolving Investment Philosophy and Sideways Markets

Andrew and Vitaliy talked about the evolution of Vitaliy's investment philosophy from a statistical approach to a more holistic view of undervalued companies. Vitaliy explained that he now looks for undervalued businesses, not just cheap stocks, and uses a 4 to 5 year earnings projection to value companies. They also discussed the concept of "sideways markets" and how to deal with them, which Vitaliy elaborated on in his book "The Little Book of Sideways Markets".

Stock Market Performance and Psychology

They discussed the historical patterns of US stock market performance over the past 100 plus years. Vitaliy explained that bull markets, often followed by bear markets, are exceptions to the usual behavior of stock prices. He pointed out that in most cases, bull markets are followed by sideways markets, where stock prices go up and down with little net progress. Vitaliy attributed this to the psychology of investors, with high valuations resulting from investor excitement and low valuations from pessimism. He concluded that stock performance is largely driven by investor psychology, with the price to earnings ratio acting as a pendulum, oscillating between certain levels.

Understanding Cape Ratio and Economy

Andrew and Vitaliy discussed the concept of the Cape Ratio, a measure of long-term price-to-earnings trends over 10-year periods. They agreed that the ratio is important because it captures the cyclicity of earnings in the economy, including recessions and expansions. Vitaliy explained that the ratio looks at the price over earnings of the last previous 10 years, which helps to smooth out fluctuations. They also discussed the impact of elevated corporate profit margins, which have been above average for several years, and the potential for these margins to decline as the offshore

industry reverses. Andrew and Vitaliy also touched on the topic of negative interest rates and the impact of debt on businesses and the economy. They agreed that much of the current economic situation is debt-fueled, and that this is a significant issue that needs to be addressed.

Market Valuations and Tech Impact

Vitaliy considered the current state of the market, comparing it to the market in 1999. He noted that today's market valuations are the highest they've ever been, making it difficult for value investors to find undervalued stocks. He used Walmart as an example, stating that despite its high valuation, it still managed to grow by 70% last year. Vitaliy also mentioned that he would have advised against investing in Walmart due to its high price-to-earnings ratio. Andrew agreed with Vitaliy's analysis and expressed interest in hearing more about current market trends and the impact of technology on the market.

Understanding Market Valuation and Growth

Andrew and Vitaliy examined the importance of understanding the market and the valuation of stocks. Vitaliy used Apple as an example to explain how companies that are overvalued, like Apple, can destroy value through stock buybacks, and how this can affect their growth rate. Andrew agreed, mentioning the influence of safety trades and stock buybacks on Apple's valuation. They concluded that investing in companies like Apple might not be profitable in the long run.

Stock Market and Tech Innovations

The current state of the stock market and the impact of technological innovations, particularly in Europe was the next topic. They observed that many markets are at all-time highs despite economic challenges, which Vitaliy attributed to the influx of money from various sources and sovereign wealth funds. Andrew highlighted the importance of a long-term investment horizon for managing stock valuations. They also analyzed the performance of tech companies such as Nvidia and Tesla, considering factors like price earnings ratios and growth rates. Vitaliy expressed concern that the current technological advantages might not translate into long-term success due to emerging competition and potential decline in earnings. The conversation underscored the complexity and unpredictability of stock markets and the need for continuous evaluation of investment strategies.

AI and Soul in the Game

Andrew expresses concern about AI's reliance on existing content rather than original thinking. Vitaliy acknowledges potential issues with AI-generated content and emphasizes the importance of proper prompting. They also discuss the concept of "soul in the game," which Vitaliy explains as a deeper alignment with one's work beyond financial incentives, leading to a more meaningful life.