Some things and ideas: August 2019

Some random thoughts on articles that caught my attention in the last month. Note that I try to write notes on articles immediately after reading them, so there can be a little overlap in themes if an article grabs my attention early in the month and is similar to an article that I like later in the month.

Podcast:

- You can find this month's Rangeley Podcast here. This month, we go a bit more macro and talk about the seeming divergence between the inverted yield curve, the stock market, and the financial press all seeming to signal a looming recession versus the major retailers (Target, Walmart, Home Depot, etc. Target is actually the best performing stock on the S&P this month) all signalling a continued strong consumer outlook. Then, we talk about the latest shenanigans at Overstock and Tesla (disclosure: short).

Monthly value theory ponderings: intrinsic reward in investing

- I've been "dieting" on and off this year in a desperate attempt to look like the Rock in my wedding photos (I'm getting married in November). I mean, look at this guy!
- Nothing new here, but one of the hardest things about dieting is each individual decision doesn't really have that much of a payoff (i.e. choosing a salad over a burger today doesn't really impact your body, but choosing a salad over a burger every day for a month with be really beneficial), and the payoff from a bunch of good decisions happens very gradually (if you chose a salad every day for a month, at the end of the month

you'll almost certainly notice a difference but you don't see the results day to day).

- Investing, in many ways, is like dieting, but a thousand times harder in that the payoffs can be so illusive. Spend a week diving into a company? There's no guarantee that you'll end up investing in it, and even if you do, you might not be "rewarded" (the stock rising) for years.... if you're even rewarded. Investing is a probabilistic game, and there's a chance that your "reward" is that you made a mistake and suffer a big loss! The most important thing is that you continue to learn (much like a diet, if you're learning a little bit every day you won't notice... but after a year or two you'll look back and the cumulative knowledge gain can be pretty crazy).
    - To phrase this a slightly different way: One of the hardest things with investing is that the unknown payoff for work. If you spend a month really diving into and learning an industry, you're going to know a decent bit about that industry. That's great! But there's no guarantee there's a potential investment on the back of that research. And even if there is, there's no guarantee that the investment will play out in the near future. Sometimes work you do today won't payoff for years (if at all!).
    - There's even the possibility of negative payoff: say you investigate a company for a week, a month, whatever. At the end, you decide the company is fairly valued. It's pretty easy / common (IMO) to look at all that work and say "meh, might as well take a position". This issue can be particularly problematic in auctions for companies. Consider this scenario: A whole private equity firm has devoted 6 weeks of ~12-16 hour work days (and tens of thousands of dollars of expenses) to DD on a company. At the end of the process, they decide

their final, best bid is $22. A few hours later, they hear the winning bid is $23, but they've got the chance to top it.... It's pretty easy in that scenario for the team to talk themselves into raising their bid to $23.50... it's only a $1.50/share, after all, and you'll be using leverage so as a % of the overall EV of the company the increase is even lower!

- For me personally, I've generally found the best way to hit longer term targets is to have super strict rules that you can't break. So, for example, with dieting, earlier this year I had a lot of success with committing to the Whole 30 where there's simply no margin for cheating (so instead of saying "I'll just have one cookie" and trying moderation, you just completely cut sugar out). I haven't done that traditionally with investing; I've generally just woken up and started reading whatever interested me that day (i.e. if a company I follow reported earnings, I would certainly read their transcript and earnings note, but outside of that I'd probably just pick an interesting situation, company, or sector and start reading up on it until I decided there was nothing to do there or that I wanted to make an investment). But recently I feel like I've been hitting a wall with that style: I've felt myself drifting a bit, and looking back over the past three months I'm not sure if I've been as productive as I've traditionally been. In Outliers, Gladwell talks about deliberate practice to achieve expertise; I feel like I'm still putting in the hours but they haven't been as deliberative and I'm not evolving as much as I was a year ago. Perhaps it's because I've been investing for a while (on my own for ~12 years, "professionally" for ~6) and am in a bit of a rut, perhaps it's because I haven't seen as many quirky situations as I'm generally used to recently so my research has resulted in a lot less investable situations than a few months ago (i.e.

normally I'd find one or two potentially interesting investments every week or so, but over the past few months I feel like I'm only finding one or two a month that are even worth doing more work on), or perhaps it's because the "rewards" have felt a bit murkier as we continue to try to scale our funds. I'm not sure. But I think a change is in order, so I'm going to take a page from dieting and institute a strict regimen for the month of September. Every day, I'm going to have a different company picked out in advance, and my rule is going to be that before I can do anything else that day, I need to read that company's 10-k, latest quarterly earnings / conference calls, put together a simple valuation model, and write down one page of notes on the company and industry (I'm debating making the last part public on the blog; TBD). The idea here is that after finishing that process for the "company of the day", I'll give myself a "gold star", and at the end of the month I'll be able to look back and see ~30 gold stars (I might take weekend or two off for travel; we'll see), and that collection of "gold stars" will be my short term reward. Anyway, I'm not 100% finalized on process, but that's my plan for September. I'll try to report back and let you know how it goes.

- This section wasn't as "pondering" as much as I normally do; instead, it was more process oriented and telling you about my day to day. Still, if you have any habits or traditions that you find help you keep focused motivated and focused on the shorter term when the longer term feels a little bit like a grind, I'd be very interested!
- Also, if you have any suggestions for companies to research, I'd be interested. I'm probably going to focus on stocks under $2B market cap that are on the simpler side, but if there's something cheap worth looking at I have plenty of opportunities in the next month!

Bonus Monthly value pondering: short selling crashes

- This month, Burford's stock dropped 20% on rumors Muddy Waters was going to publish a short report on them. The next day, Muddy Waters published a short report, and the stock dropped a lot more.
- I don't have any thoughts on Burford specifically, but I did have two thoughts on the whole chain of events.
  - First (and I tweeted this out), something about a stock dropping 20% on rumors it was a short target struck me as odd.If you're an investor, and you're panic selling a stock on the rumor a short is targeting them, isn't that akin to admitting that you suspected the company might be a fraud and bought anyway?
  - Second, after the Muddy Waters report came out, I was surprised by how many investors came out and immediately said "told ya so" or sold their position and said "My bad, shouldn't have bought this, Muddy Waters is right and this thing is a flaming pile of poop". The former was a little off putting to me; there were a lot of footballs being spiked from people who claimed they saw Burfurd as a fraud from a mile away. The later was kind of weird; I saw lots of investors who supposedly had done deep work on Burford who were selling at the drop of a hat. Maybe the facts changed and they changed their mind, which is commendable. But something about how many people I heard talking about insta-selling into the tweet made me think about last month's "monthly pondering" on doing the work to build conviction. I wonder if the people who were selling had done the work to build conviction, or if they had seen other people publish smart thesis's on Burford, read the thesis, did some cursory DD, and decided to buy a position.... and then were freaked out by the MW

report and panic sold?
    - My buddy scuttleblurb made a similar point. PS I think his service is the best value / price ratio of any service out there, so I'd fully endorse a subscription if you're considering one (note that I don't get anything from that endorsement; I just consider him a friend and think his service is great).
    - Also, let me emphasis I'm not trying to subtweet anyone here. Two of my latest posts are on WOW and ADT (disclosure: long both), and both of those are down ~35% in the 2-3 months since I posted them. I still feel pretty good that both of those will work out well in the long run and try not to judge stocks based on short term movements.... but that's still a pretty steep drop. Feel free to dunk on me with impunity. I only chose to highlight Burford because I was surprised by how quickly people seemed to be ditching their positions and coming up with mea culpeas to a short report where many (not all, but many) of the "red flags" that were raised had been visible for a long time.
- Related article: How a short seller may have caused an accidental sell-off for two Canadian companies

Bonus bonus monthly pondering: new valuation metrics

- I think I've put this thought out there before, but this clip on Malone inventing EBITDA (from the excellent Cable Cowboy; I probably need to reread it) reminded me of the thought.
- I wonder if perhaps the best way to deliver alpha is to catch on to a new valuation technique that works and creates value before the rest of the financial world

picks up on it. The crazy thing is that this insight could apply both as an investor and as a entrepreneur / business builder.

  - For example, in the ~1920s, fundamental analysis was pretty much non-existent. Ben Graham basically invented it, and he created huge alpha fortune by doing so.
  - In the 70s, analysts were obsessed with EPS. Malone saw the value of maximizing after-tax cash flow, not EPS, and created a cable empire from it. Analysts who saw the logic behind what he was doing (and I believe Gabelli was one of the main ones) could have bought Malone's stock (or others like his, with low EPS but high cash flows) and generated tons of alpha.
  - ~Eight years ago, a bunch of internet and SaaS companies were trading at (with the benefit of a bit of hindsight) much too cheap valuations. The reason was because the market hadn't seen lots of companies that could scale like SaaS before (i.e. they were breakeven at 5m users, but would be insanely profitable at 10m or 100m users). Investors who had the foresight to see how well these businesses could scale could buy into them at extremely cheap valuations and deliver tons of alpha. Entrepreneurs who saw that scale was much more important than generating near term profitability could build businesses that would demolish their competitors obsessed with delivering a profit (a loose example, but Netflix was more concerned with getting to scale and growing, while legacy media companies needed to hit their quarterly numbers. That let Netflix license content for big fees in the short term that let them build a much more valuable business in the long term).
- There are other examples (being early to recognize

business quality in the ~60s a la Phil Fisher / common stocks and uncommon profits is probably another good one), but the bottom line to me is that a consistent source of alpha is finding a new valuation metric that creates value in the long term but that people currently ignore (sounds kind of simple when I put it like that). There is a trick though: the source actually has to create value / the business model has to make sense. Internet companies and investors are obsessed with Daily Active Users (DAUs) today, but the line between DAUs and "eyeballs" (the peak metric during the dotcom bubble) is pretty small. The difference is that most of the companies utilizing DAUs today have some path to profitability as they scale, while most of the eyeball companies from the dotcom bubble simply had no business model.

Some book recommendations

- In last month's links post, I mentioned I had been reading a bunch of fraud books (specifically, Billion Dollar Whale (1MDB), Smartest Guys in Room (Enron), Bad Blood (Theranos), and Wizard of Lies (Madoff)). I also asked for recommendations for more fraud books, and you guys provided plenty!
- Some popular recommendations for fraud books (in rough order of most to least popular recommendation): The Match King (by far the most popular recommendation!), Den of Thieves, Indecent exposure (unfortunately not on kindle!), Fooling some people all of the Time (I read it years ago and enjoyed it; may need to give it a reread), The Informant, Billionaire's Apprentice, Lying for money, and my adventures with your money (probably next on my books to read).
- As I mentioned on twitter, I read The Match King this month, and I liked it, though I preferred all of the books I mentioned last month more. I also posted some

highlights from Match King on twitter; I think the thing that surprised me most was how similar the issues and frauds from the 1920s are with today's. For example, as his fraud begins to unravel, Ivar (the "match king") begins to blame the press and short-sellers with increasing regularity. And leading academics decrying 1924 as the "year of the vanishing stockholder" because of the increased issuance of low and no-vote shares reminds me of today's IPOs of non-voting shares.

    - To state the somewhat obvious: yes, there are a shocking number of parallels between Ivar's behavior and a certain local area car salesman who we discussed on a podcast last night.....

Sports media update: A core tenant of the monthly update: continued highlights of the increasing value of sports rights (mainly because of my love of MSG (disclosure: Long)).

- Dolan's Vegas dreams are a boondoggle.
- Inside the Dolan / Balmer LA feud
- Sinclair eyes more RSNs as it closes Disney deal
- Golf's PGA Tour looks to score media deal as suitors circle
- Tsai to buy rest of Nets for record $2.35B
- Mets playoff push means advertisers pay double on team-owned SNY
    - Imagine what would happen if the Knicks ever were good...
- Every twist and turn in the Zion shoe deal (interesting look at what happens in athlete endorsements)
- NFL takes first major gambling step with sportradar data deal
- Soccer's $73m star will be a ratings winner, NBC says
- The sports news site haters love to dunk on keeps signing up subs

Other things I liked

- Apollo and Brookfield Business (Brookfield's Private equity arm) are both finding value in taking public companies private
    - Ok, I'm linking to / "liking" my own tweet. But I do think it's interesting. And I generally agree with what they're saying: while there are some corners of overvaluation in the market, there are a variety of companies that continue to trade at very attractive levels. That's an opportunity for private equity companies (who can buy the whole company with cheap debt) or public investors (who can buy public companies at light valuations, hopefully in front of the private equity companies coming in and offering huge takeover premiums!)
    - Apollo takes on wall street with massive newspaper loan
    - Blackrock fund's first big PE deal is a sign of what's to come
- Viacom, Hungry for Hits, Gobbles up Garfield
    - HBO MAX zeroes in on mega deal for Big Bang Theory and 2.5 Men
    - TV networks stuff in more commercials despite vows to cut back
- Inside CEO John Stankey's 'Action-Oriented' Approach to reposition WarnerMedia
- Taylor Swift's Asset Restructuring
    - Taylor Swift embraces streaming
    - The death of cultural transmission (mainly FT on the valuation of UMG, but also some interesting thoughts on music popularity going forward)
- Advantage flywheels
- Netflix biggest bingers get hit with higher costs (pricing power for cable)
    - Netflix boosts bet on interactive TV with wave of kids tv shows
- The truth about faster internet: it's not worth it
    - Free cable for firehouses put at risk by FC vote

- The lunch ladies of New Canaan (crazy story about Rangeley's hometown!)
- Companies securitize everything as investors reach for yield
    - I've mentioned this a few times, but I generally agree with this quote from BAM (Disclosure: long): with interest rates across the world zero or negative, equity prices need to generally rerate higher. The arb for companies borrowing at super low rates and buying their equity back at high single digit / low double digit yields is just too large, and this article is one way that companies are taking advantage of that. I expect we'll continue to see more of it.
- Vox on the history of escape rooms
    - I've mentioned this before, but I freaking love escape rooms. I try to do one whenever I travel to a new city, and I think I have the escape record at at least one of the rooms mentioned in that article #notsohumblebrag
    - If you're in NYC, I've done almost every escape room in the city at this point. My favorite escape rooms in NYC are at Clue Chase. I would particularly recommend the Lost Spy or the Ultimate Heist (ultimate heist is a bit different than the typical escape room).
    - If you're not in NYC, my escape room recommendation is escape the crate. It's an every other month subscription service, and their puzzles are fantastic.
    - Note: I don't get referrals for any of those. Just telling you about them because I like them / I'm passionate about them!