Some things and ideas: February 2020

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.

A request:

- I'm just going to start blanket including this request in each month's post. One of the reasons frequency of posts / podcasts / other public stuff can fall off is because I look at them and wonder: "Is it really worth my time doing these for this small an audience?" A lot of work goes into all of these, and I hope that the output is generally of interest / high quality. If it is and there's someone you think would like this blog / the podcast, please share it with them. It would mean a lot; positive feedback / increased readership is what keeps the public posts coming!
    - This isn't meant to be a threat or anything! It's just frustrating to spend lots of time on something that you think is decently high quality and consistently see viewership numbers that would rival a local high school's newspaper or a North Korea / South Korea soccer match or an Italian soccer match during a potential pandemic.
    - And a big thank you to everyone who reached out expressing how much they liked the blog. Honestly it means a lot to me!
- One thing I realized after putting this up for a few months: it's kind of rude for me to be asking people to share my blog without highlighting some other blogs I

enjoy. So here's a special shoutout to some fellow bloggers whose posts I enjoyed this month:

- What's it 2U...
    - This blog has quickly become one of my favorites, and I instantly subscribed to the premium subscription. I'm writing this in early Feb, so I can't review the service, but I can tell you I think this is probably the best blog in terms of actionable event driven ideas right now.
- Corona takes I liked more than my own take
    - How we're thinking about coronavirus
    - A viral market meltdown

Monthly Pondering: why are we making this so hard?

- Given last month's pondering was "Three grumpy thoughts from a jet lagged investor," I am worried this section is turning more and more into “old man yelling at cloud”, but here we go anyway.
- At the end of last month, I was reading up on a newspaper company (LEE). As I was reading it, one of the big tech companies (I believe Amazon) reported killer earnings and their stock shot up 10%, and I just found myself thinking "what the hell am I doing? Why am I bothering to put in this much work when the obvious place to find alpha is just to buy safe, growthy things and go to the beach? Or, even better, just buy growthy things and wait for the speculative mania to kick in"
    - I say that somewhat in jest, but it is awful hard as an investor to sit here and spend 60/70/80 hours per week on research only to get horrifically outperformed by people who "bought the stock because they like the car" (I am sure we all know what company / "investors" I refer to here).
- Anyway, I mention this because in the wake of the dot

com bubble in the late 90s, there was a golden age of value investing from ~2000-2002. A bunch of value investors made their names in those markets: the indices were down significantly, but because so many value stocks had been left for dead in the bubble, plenty of value investors were able to be up substantially during those times.
    - I can't help but wonder if the market we're in today is somewhat similar to the late 90s. If that's true, eventually markets will snap back and value investors will have their day in the sun. Maybe. I don't know. What I do know is that when you read stories about the bubble in the 90s, value investors express how frustrating it was to see all of these worthless stocks gapping up on no news or meaningless analyst upgrades when their solid stocks languished well below private market value. I used to think such "everyone is getting rich but me" jealousy was ridiculous, but I certainly can see / feel how hard living in that type of market is during today's market.
    - Let me be clear: I'm not saying we're in a bubble. Or the market's set to crack or anything. And today is clearly different than the 90s / dotcom bubble; many of the "leading" companies then were merely idea / story stocks, but most of the leaders today have proven business models with enormous moats. But I do think there are some clear excesses out there, and that the market simply doesn't care about some more off the beaten radar stocks (or pretty much any stock that isn't in the index). That combo can certainly wear on an investor trying to outperform in off the radar stocks!
- *Editor's Update:* I wrote this in mid-February. Given the carnage in markets in the last week of February, I wonder if I would have written this the same way at

month end...

Bonus monthly pondering: weighting "bad" share buybacks

- Ok, I reread the section above and fully understand how pitiful I sound. So a bonus pondering.
- I tend to think, by far, the most important thing a CEO / company does is capital allocation. I'm far from alone in that belief. In fact, I think it's almost silly for someone to say that capital allocation isn't the most important thing a company does. A lot of people will point to something like Apple, which has obviously performed fabulous despite what's probably a subpar capital allocation strategy (running with a huge net cash position, not really leaning into buybacks, etc.). I think they're missing the point; sure, Apple's capital allocation wasn't ideal, but it wasn't awful. Bad capital allocation isn't running a slightly ineffecient balance sheet or failing to buyback shares when they're cheap. Bad capital allocation is engaging in horrific mergers or levering up to buyback shares at cyclical peaks or when it makes no sense to do so just because a CEO wants to prop up the share price or meet a short term EPS target. Bad capital allocation is Microsoft buying Nokia's smartphone business right before the business became basically worthless. Bad capital allocation is IBM putting out a $20 EPS target and then doing everything they could to hit it (slashing R&D to generate extra cash for share buybacks) despite it killing the business.
- I was reading CC's 10-K the other day, and I noted their capital allocation. They bought back >$1B in stock in 2017/18 and then shut the buyback program off in 2019 despite a share price well below where they were buying back in 2017/18. And that actually turned out to be the right decision! Shares today trade <$20, well below where they traded for most of 2019.

    - So my question is: how do I weigh the capital allocation here? Do I hold it against management that they bought back shares at higher prices and then stopped? Or do I give them credit for being astute capital allocators willing to buy back shares when they thought they were cheap and then changing their minds when the business environment changed?
    - I'm probably somewhere in the middle: I'm no expert on CC, but it's a cyclical business and it appears management was buying back shares when they looked cheap because the business cycle had put them at the high end of their earnings. But they also deserve credit for not destroying the business by overlevering it for share buybacks as the cycle turned against them. Still, I'm not sure if I'm thinking about it right. Something I'll be pondering more going forward....

Bonus bonus pondering: VIC contest winners

- I'll start by disclosing I'm a member of VIC and enjoy the site, so everything said here is more in the spirit of "this is interesting" than trying to dunk on anyone (not that I think the tone of this segment is even trying to dunk on anyone! In fact, I've never been able to dunk. The closest I ever came was in college, when I could get a couple of fingers on the rim. My lack of hops has always been a sore subject)
- VIC is valueinvestorsclub.com. It was started by Joel Greenblatt of You Can be a Stock Market Genius fame. The basic idea is the site has a bunch of investors discussing and posting ideas. To qualify, you need to submit an idea, and once accepted the only requirement to stay a member is posting two unique ideas per year. There are a few benefits to membership, but one of them is the opportunity to win their 2x/month ideas contest.

- The contest is what I wanted to talk about here. I noticed that most of the recent VIC idea winners have been short ideas. For example, all four of the in September / August winners were shorts, and by my count 10 of the 18 winners for the first nine months of 2019 were short ideas.
  - I found that kind of interesting. The most obvious reason for that happening is some type of bias on the judge's part. If you're a huge bear, you're more likely to like bearish posts.
  - But there are other explanations. VIC is supposed to be a group of sophisticated investors. What if we assume the judge is neutral / not biased for a second. That would mean, right now, the best ideas produced by a group of sophisticated investors are consistently short ideas.
- Is there anything to read into that? Probably not!!!! But it is interesting to think about (and maybe just reinforces my "is the market today kind of like the late 90s?" thought above), so I thought I'd highlight it.

Iger stepping down

- Earlier this week, Disney's CEO, Bob Iger, stepped down. The move seemingly came out of no where, and Iger said that he did it because he no longer wanted to run company
- If you believe the reporting (and I do!), not only were former employees and Wall Street surprised by Iger's replacement (Bob Chapak, who ran Disney's parks. Good WSJ overview here), but the man who had been heir apparent, Kevin Mayer (who's in charge of Disney+), was surprised as well.
- The retirement timing was perfect for me; I literally had just hit the halfway point of Iger's book, Ride of a Lifetime. So I got to finish the book / read the last half knowing that Iger was prepping this move and

looking for little tea leafs on what was going through his mind. And the thing that struck me most was the book seems to prep Mayer as Iger's successor, not Chapak. Some examples:

    - Mayer is mentioned in the book way more than Chapak.
    - Mayer is mentioned prominently in every major strategic decision (buying Marvel, Lucas, and almost buying Twitter)
    - Mayer's call out from Iger is above Chapek's, and Mayer's praise is much more effusive.
- One last thing that I found funny from the book: Iger's final competition for the Disney CEO role was Meg Whitman. Funny how often she comes up in CEO interviews; I had just read the book on Uber (Super Pumped) and she comes close to taking that CEO job maybe 15x.

Bluefin / Bluelinx (BXC) tender offer

- On Feb. 20, Bluefin acquisitions announced a tender offer to buy BXC at $24.50/share, a ~75% premium to BXC's most recent price.
    - On the face of that sentence, there's nothing weird about that sentence. Sure, it's a big premium, but BXC is a highly levered microcap. They often trade for huge premiums to market price when taken out.
    - Obviously, the "face" is not what it appears at first. The offer was announced at 3:33 PM EST... during market hours. That's a huge red flag. An even bigger red flag came the next morning, when BXC came out the next morning with a press release asserting the offer "may be false".
- The story continued to get stranger. The acquirer responded that afternoon (again during market hours) by confirming their offer and promising to file tender docs on Monday, Feb. 24.

    - BXC responded to the response on Monday, noting that Bluefin hadn't filed their promised tender docs (as I write this on Feb. 26, the tender docs are still missing) and that it appeared Bluefin's information agent had terminated their engagement.
- Anyway, I mention all this because it's a pretty weird story. Tender law is pretty cut and dry, so even most fraudsters like to stay away from launching fake tenders (which it appears this was).
    - There was also a (small) window to trade aggressively on this news. I saw the tender announcement and immediately thought the offer was fishy, but I couldn't believe someone would mess with tender law and didn't have a position in the stock, so I didn't do anything. Coliseum was much faster to the trigger than me; they owned ~9% of BXC and had filed a 13-D on the company, but they managed to sell about a third of their position (~3.5% of BXC's shares) into the tender pop.

Gold star continuation

- I introduced the "Gold Star" process in my August 2019 blog link and followed up on it in September. My goal is to continue to do this going forward: every month, I want to read 40 10-Ks and hit the most recent earnings call for those companies (if they have them). Many of these will be new companies, but some will be brushing up on old favorites. The hope is the process helps to me to maintain the balance of reading broadly while learning about new companies and ensures I'm a bit more structured in my work. Anyway, here are the 10-Ks I read this month:
    - Looks like I got through ~25. I'm actually pleased with this number, as I've generally excluded companies that I already follow pretty closely from the list below (like the cable companies or

MSG). I kept separate track of them; if I had included them, the number would have been between 55-60 10-ks / transcripts read. Not a bad month!

- If you have thoughts on any of the companies I mention in this, I'd love to hear them. Or if you have suggestions for companies I should look at next month, I'm always open to suggestions (I tend to hit ~75% of the companies people ask me to look at, and I'll try to get back to you with thoughts on them if I have any / if I remember or you remind me)
- This month's 10-Ks
    - IVFH (added an activist to the board)
    - DLHC (followed for a while / read their last 10-K in September; just staying up to date as I tend to agree with this writeup).
    - CMCSA + CHTR (obviously not new companies and, as mentioned above, generally don't include companies whose 10-ks I'm rereading / already follow, but I spent a rather full day rereading all their stuff and new 10-Ks so figured I'd include)
    - DIS (Similar; as mentioned above, was reading Iger's book and wanted to check in on DIS / update ESPN numbers)
    - TWOU (based on this post)
    - MNCL (acquisition deck here; looked at it in part because I like Aero companies and in part because a former Rangeley partner is their CFO)
    - HMTV (had looked at buying Univision with Liberty; interesting company and thesis but don't have a great grasp on outlook for their markets or optionality in their equity investments)
    - LSYN (really interesting company that just settled with some activists and is doing a strategic review, but some red flags and lack of confidence in future kept me away for now)
    - WWE (posted here)
    - HLT

        - CC (not my typical wheelhouse. Probably too cheap, but I worry that there's a ton of unaccounted for environmental liabilities, like this >$100m charge they had to take in Q4'19.)
        - Warner Media S-1 (couldn't believe 25% of revenue still comes from physical sales)
        - ASYS (cheap and the rare double activist company, but not sure I have any unique insights here)
        - Undisclosed microcap
        - V (what an insane company. Trades at like 30x P/E; honestly I think that's a bit too cheap for a company that high quality with that good a business / growth outlook, but not really my cup of tea)
            - Interest a little bit started by this WSJ article
        - CSV
        - SFM (disclosure: long. Similar to CMCSA / CHTR, have read before but with a new CEO I spent a lot of time rereading here)
        - REAL
        - GHC
        - FNF (sold off hard in wake of FG transaction)
        - TURN (a small closed end fund focused on activist microcaps; results have been really good but they've got a big expense hurdle and it's weird they are currently considering a dividend given the discount they trade at)
        - CRJ (based on this article)

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

    - AT&T ends Yankees sponsorship
    - My mini tweet storm after looking at MSG's earnings call
        - Spin could help highlight tremendous value of

sports team
    - Under Dolan's ownership, the Knicks have been borderline comically incompetent. He really is the worst owner in sports.
- The Super Bowl is still TV's ballgame with streaming far behind
- Roku and Fox Reach Distribution Deal to Avoid Streaming Blackout
- Yes finds viewers in bars as network plans rate hike
- 2020 NBA team values
- DIS on how pleased they are with UFC on DIS
    - Quote from Endeavor pres on UFC / DIS
- Sinclair is said to near sports streaming deal with deltatra
- China standoff cost the NBA $100s of millions
- Vince McMahon could be biggest obstacle to WWE's rebound
- Royals, Fox Sports agree to new deal
- T auction to sell four RSNs falls short
    - Cubs channels that fans can't see symbolizes sports net woes
- NFL TV rights up for renewal in 2022, and big media wil pay more
    - The NFL thinks you're ready for some more football
- Cuban explains NBA declining TV ratings
- The BIG3 returns to CBS
- Braves print money for liberty
- Zamboni driver, 42, stars as emergency goalie for Hurricanes (I legit never get tired of these stories)

Other things I liked

- Interview with Greg Maffei
    - Lots of fun little tidbits in here. Nothing crazy new.
    - One thing that jumped out at me: around the 39 minute mark, he mentions one member of the Charter board asks why they aren't valued like a tower

company (which trade for like 30x FFO). Part of the reason is likely the REIT nature of tower companies, but ignoring that (and admittedly it is a big ignore!), I think it's a good question. As the stability / safety of broadband cash flows becomes more apparent and capex continues to drift down, I think cable will continue to see multiple expansion as its multiples trade closer to infrastructure / tower peers.

- Gates foundation 2020 letter
- Meet the man who holds Hollywood and Silicon Valley's future in his hands
  - Legit bonkers
- Disney to release film version of Hamilton
- The Witcher's Impact Across Entertainment
- Brookfield: inside the secretive $500B firm (long BAM)
- The stock got crushed. Then the ETFs had to sell
- KKR undercuts wall street with last minute loan (long KKR)
- SPOT pays $250m for ringer
- What I learned from my mother in law's cable bill
- Add plug power to the list of stocks seeing big speculative trading
- Fox looks to buy streaming service Tubi
  - Fox, Comcast look to buy streaming services
- Kerrisdale thesis on short Match / IAC (disclosure: long IAC)
- Corona virus raises worries abotu a broad slowdown in air travel
- Roblox raises $150m
- How Mike Bloomberg's meme blitz was engineered to go viral
  - Three things on this: First, the article absolutely cracks me up. The absurdity of needing to *** out "shitheadsteve" and "fuckjerry" in an article about a presidential candidate paying them is fantastic. Second, I feel truly old, because I

found most of the memes rather unfunny (also, I don't use instagram, so while I'm familiar with some of the accounts I'm probably not the target market). Third, I love that a presidential candidate / his team thought an instagram account named TrashCanPaul was one of the keys to the nomination.

- KFC Chicken & Donuts coming to restaurants nationwide
  - Between this and the KFC Crocs that smell like fried chicken, I'm obsessed with KFC currently (and I've only eaten there maybe once in the past ten years!)
- Trump is reportedly furious with the plunging stock market due to corona virus fears
  - I only highlight for one reason: I can't imagine a greater example of favoring the short term over the long term than cautioning "aides against forecasting the impact of the virus over fears that stocks could fall further." Legit insanity. Caution and forecasting can help prevent a crisis (if one were to start); burying your head in the sand about it might prop up the stock market for a few days but it could have catastrophic longer term effects that result in much more pain....
  - *Editor's Update:* I wrote this right after the article published. A few days later (and significantly lower given the drop in the indices), I stand by this take even more.