Some things and ideas: May 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. That's a particular challenge for an environment as wild as this one; for example, if I link something from early April like "Apple tells staff stores closed until early May or "Equinox won't pay April rent," by the time I post those articles in late April the information is wildly out of date (people will be more concerned with Equinox paying May rent!) even though it's super interesting!

Premium / word of mouth

- I launched a premium YAVB in April (announcement / overview here). I've had a lot of fun doing the site so far, and I think it's worth subscribing if you enjoy the free blog.
  - The general goal of the premium site is to post one deep look at a company and/or investment idea each month, and then do a monthly general update post (kind of like this post, but with a heavier focus on investing specific things, individual investment updates, and my thoughts on them), but it's still a work in progress!
- Don't feel like subscribing? No worries! However, 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, 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 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 request 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 shout out to some fellow bloggers whose posts I enjoyed this month:
  - Scale and loyalty are more important online than offline
  - The rise of tiktok
  - Air Boom 'n Bust
    - I subscribe to a lot of different research stuff. Some of them are professional subscriptions that cost thousands a year and have dozens of people working for them; some of them are just one man shops putting out newsletters of interesting / quirky situations (something like I hope mine is!). Of all of the subscriptions, non-gaap is my favorite. I almost feel guilty writing this bullet because I wish I was the only sub for #edge purposes, but I'd feel more guilty if I didn't highlight how good it is. There's no referral fees here; I just think it's under-subscribed for such a great resource. It's the perfect blend of interesting ideas

/ learning every time I get an email.

    - One more plug: esscaperoom.com. Long time followers of this blog will know I love escape rooms, and I've really missed being able to do them during the pandemic. Fortunately, esscaperoom has launched a virtual escape room. Some friends and I did it the other night, and it was a blast. The game host puts on a GoPro and actually does the whole room with you directing him; it's still not the same as a normal escape room but it was a blast nonetheless (and the hosts finger dexterity was rather impressive!).

Monthly Pondering: Following actions, not words

- I love games of all forms: strategy games, card games, role playing games. I've even been known to enjoy a drinking game or three. But my favorite type of games are social games. These are games where there are generally two groups: a smaller group that has perfect information and is working against a larger group, and a larger group that is trying to use logic and deduction to figure out who the smaller group is. Most of us played the game Mafia growing up, and that's probably the best known / simplest version, but current popular examples of social games include Secret Hitler (strong recommend despite the controversial name! Here's a good website if you're looking to play online), Ultimate Werewolf (enjoy; recommend but prefer Secret Hitler), Coup (enjoy as well; much simpler than the other two), and The Resistance (haven't played yet, but it's been recommended to me and I'm trying to get a game going this weekend).
    - Anyway, why mention social games? One of the first rules of social games is that you don't trust what people say; you can only trust their actions. An example might show this best: in Secret Hitler,

the government in charge draws three cards and plays one. The goal of the liberal team (who doesn't know anything) is to play blue / liberal cards. The goal of the fascist team is to play fascist / red cards. Now, there are more red cards than blue cards, so sometimes a liberal will be forced to play a red card because they drew nothing but fascists. Fascists know this, and anytime they play a red card they'll say "Had to. Drew all reds!" So, basically, any time a red card is played, whoever played it is going to say they had no choice. So, when you're trying to figure out who's who, the answer is simple: ignore their words, and put a lot of suspicion on anyone who played a red card.

- Why mention this? Well, a big piece of my investment theory has always been to follow what insiders are doing. Given all of the blackout restrictions and hassles around insider purchases, it's pretty rare to find executives willing to put up their own money and buy their own shares, so when insiders do that it's traditionally been a pretty big sign to me that I should look at a company. In contrast, if insiders are selling their stock as fast as they can unload it, I'm generally not as interested in the company. It comes down to following people's actions, not words: it's pretty common for management teams to say they're bullish on their company and its prospects and think their stock is too low, but it's really rare for an insider to actually buy the stock (which they should be doing hand over fist if the company is as undervalued as the management team say it is).
  - So bottom line: my thesis has always been look at places where insiders are buying rapidly, and look suspiciously on any company where insiders are selling as quickly as possible..... but that theory has been more than a little bit tested by

the current environment.

    - Interested in insider buys? I saw several companies where insiders were buying aggressively all the way down as their company imploded (I've mentioned XAN several times on the blog, but it would be the poster child for this). The fact is very few people were ready for a world where the economy went to basically zero overnight, and many companies were completely demolished by that stop. For many companies, their stock prices in early/mid-March were a bargain if we simply got a worse version of the financial crisis, and insiders were buying hand over fist given those prices.... but, of course, for a lot of industries the current environment is significantly worse than the financial crisis, and those buys look way overvalued in hindsight.
    - What about insider selling? I'm signed up for email alerts for SEC filings from any company I follow closely, and my inbox has never been so full of form 4s of insiders selling. As one friend put it, insiders are currently puking their stocks "like they just chugged a liter of wild turkey." I've never seen insider selling as aggressively as I have the past month, and the market has seemed to go up every day in the face of those sales. And it's not just aggressive insider selling; I'm seeing companies that historically have been aggressive share repurchasers raising huge amounts of equity at prices a fraction of where they were repurchasing shares just a few months ago, and across the board the market seems to be cheering these companies for mammothly diluting themselves.
- The most important thing to remember when playing social games is to follow the actions, not the words, and I've long thought that held some truth in markets as well. But when insiders are buying while their companies

implode and then are selling as aggressively as possible while markets are screaming higher, it makes you wonder if you should really be paying any attention to actions.

- Three notes here:
- First, the March buys I'm referring to were reasonably selective, but the insider selling across the past month has been extremely broad based.
- Second, I understand saying "insiders were selling aggressively in April and markets are ripping in May" is pretty short term, but insiders were selling aggressively enough that you would have thought they were Senators with inside information things were about to get awful, so you could forgive me for judging them based on their short term results.
    - The counter to this? I mentioned in "Confused" I could see how big capital allocators (like Berkshire) could have trouble buying stock when they were getting real time economic data that was orders of magnitude worse than the financial crisis, while the market could easily discount the present and be looking to a more rosey future. Perhaps something similar holds with insiders: they're selling because they've never seen or even imagined near term results this bad, while the market is looking out a few years.
- Third- I'm working mainly on what I'm seeing. I couldn't manage to find any data that said we're in the largest insider selling / company share issuance environment ever, but I would be surprised if that wasn't the case. I would particularly be surprised if there had ever been an environment where more of the shareholder friendly type companies I tend to follow had

issued shares.

- An unrelated personal note while we're on the subject of games: there have been few fun things about quarantine / lockdown, but I hadn't played bridge in ~10 years and one of the fun things about lockdown has been picking it back up so I had something to do online with my mom. If you've looking for an activity that will give you a little bit of value investor street cred, you could do worse than bridge!

Bonus Pondering: Executive action on Social Media Companies

- After Twitter put a warning on Trump's tweets about mail in voting, Trump responded by prepping an executive order "against" social media companies. I've long been fascinated by Twitter as both a platform and a stock, so I wanted to put some thoughts down on it (side note: Stratechery, another subscription service I highly recommend that's basically a required sub for anyone interested in tech, did two nice premium posts on Twitter / Trump over the past few days, so I'd encourage you to read those too!).
  - I think the base case is that the executive order is a lot of bark but no bite. I'm not a lawyer, but my understanding of the laws suggest it would be really difficult for the executive branch to "clamp down" on the social networks.
  - What if I'm wrong and there's actually bite to the order? I think that the effect of any executive order could actually make the moats for the large social networks much stronger because an increased regulatory burden would make starting up a competitive network too expensive (similar to how GDPR appears to have been a boon for Google / Facebook).
  - The biggest tail risk would be Trump leaving the platform and going to his own platform (i.e. a new

Twitter started by some conservative friendly tech company). It's a unique risk: I think we've seen from a variety of people leaving platforms that the platform survives and the person leaving gets a much smaller audience (Alex Jones getting banned from all social media comes to mind; Ninja's audience since leaving Twitch has shrunk dramatically, and I'm sure there are plenty of other examples), so in general I would think the risk of a platform losing its biggest star is super overblown (if Twitch had been public, I would have loved to buy a Ninja-leaving driven sell off). But Trump is unique. He's the freaking President of the United States. If he left Twitter and went to some new platform, obviously his most ardent followers would go.... but all sorts of people who would otherwise tune him out would be forced to follow him (Journalists, Foreign Leaders, etc.). I'm guessing that most people would simply go to whatever new Twitter platform Trump used simply to get his tweets and then continue to use Twitter for everything else (in fact, I'm sure there would quickly be a "trump tweets" twitter that copied his tweets from the new platform and put them on Twitter), but network effects are a fragile thing. If Trump joining a new platform and exclusively tweeting there (plus forcing all of his underlyings to do the same) drives tens of millions of people to a new platform, it's entirely possible that's enough to spin up a new social network / competitor to Twitter. Again, I think Twitter would win given their dominant user base currently (plus, the new network's edge would be short lived: Trump will eventually be out of office. That could be six months from now or it could be four years, but eventually he'll be out of office and the new

Twitter's reason for existing would collapse), but it is a unique risk and it's honestly the only scenario I could imagine where one person leaving a network had even a remote chance at hitting a social network.

    - If Trump did leave Twitter, I think he'd quickly see how much less play his tweets from new Twitter got and would come back to twitter. Trying to start up a new network and getting massively decreased reach in the middle of an election cycle isn't exactly ideal! Trump said he'd like to delete his Twitter but can't because it's his best megaphone, so I think he understands deleting his Twitter account to try to start some new network would be political suicide given what it would do to his megaphone.

  - Bottom line: I tend to think any sell off in Twitter stock from Trump threats at Twitter are an opportunity.

- A bonus rant: Twitter posting the warning on Trump's mail in ballot tweets shows just what a clown car Twitter is, as they clearly didn't think through the downsides of fact checking him (I tend to agree with this article). I'm not saying Twitter was wrong to slap a warning on those tweets, but it's insane they drew the line at mail-in ballots given all the other conspiracy theories and falsehoods (particularly around Corona) getting tweeted from Trump. Twitter either needed to go all-in a long time ago and start censoring tweets, or they needed to just live with the consequences of what was happening and let Trump tweet pretty much anything he wanted. By putting the warning on the ballots tweet, Twitter got all of the downside of the blow back from censorship and none of the upside.
  - Bonus article: Twitter can't change who the President is,

    - Bonus thought on Twitter: I think the activist case is really, really strong (and I've thought so for years). It's tough to point to many ways Twitter has evolved as a platform since.... well, since ever. The company spends ~$700m/year in R&D and another ~$1.3B in SG&A. I think, with some luck and good management, the company could leverage their network and all of that spend into a variety of different opportunities (I continue to be intrigued by the idea of Twitter's potential for live sports / new broadcast), but in a downside case I think you could cut out the vast, vast majority of Twitter's cost structure and just run the thing as a crazy cash cow and make a significant return from here.
    - More on Jack and activist case: In the Corona Era the force is still with Jack Dorsey

Bonus Bonus Pondering: Moderna execs dumped nearly $30m in stock after Corona results

- Just two thoughts on this:
    1. The "cure for Corona" environment is going to be the best environment we've ever seen for morally questionable companies looking to raise money and/or grift.
    2. I mentioned this in "confused," but the whole market popped ~5% on Moderna announcing postive results. It seems crazy to me the market could be so strong on such an early trial.... and that insiders would be selling into the strength that pushed the whole market up!

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)).

- This section was a bit of a struggle this month. I could link to 50 different articles on how the NBA is prepping to return.... but at the end of the day, is there much to be learned from reading beyond the first one? Or from reading one from early May? I didn't think so. So I ultimately decided to cut a lot of the links I orginially had and just posted the four below. Why? Because I think they highlight a few things that investors and sports fans are going to need to get used to for sports going forward: sports without fans are weird, people are bored and desperate for live events / sports, and because people are bored sports betting (already a business with massive tailwinds) is going to continue to take off.

  - The one article I wanted to post but couldn't find something that really covered what I wanted this month? The continued rise of eSports as regular sports are sidelined.
- The world of sports betting in a world without sports
- The testing plan at the center of the NBA returning
- Woods and Mickleson charity match proves a ratings hit.
- "Fans" return to Monday night raw

Other things I liked

- Social Distancing is not enough
- Behind the fall of Luckin Coffee
- Will there be a fall tv season? Fox gives it a go
- Spotify strikes exclusive podcast deal with Joe Rogan
- Barry Sternlickt Sketches an Optimistic New Normal
- Companies won't ditch offices post-Corona, ESRT says
- Free streaming rescues cash-strapped couch potatoes
- Elon Musk is the hero America deserves
- Cord cutting hits record as corona shutters business
- Apple buys older shows for TV stepping up Netflix challange
- Video games set a record for quarterly sales
- American Idol

- Shutdown puts D+ in a programming crunch
- Corona mortgage bailout program grows again as more homeowners delay payments
- Even Buffett wonders if people will return to the office
- Private equity numbers aren't as ugly as they appear
- Chuck E. Cheese changes names to Pasqually's for delivery (I had wondered how they had enough delivery demand to stay open!)