Some things and ideas: June 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, in April, 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early May or "Equinox won't pay April rent," by the time I post those articles in late April the information is wildly out of date (people will be more concerned with Equinox paying May rent!)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, maybe a quick idea or two, individual investment updates, and my thoughts on them), but it's still a work in progress!
    - Looking for an example post? This write up on IWG was posted first on the premium site and is the type of deep dive I'm looking to do every month. This case study on KTB is a nice example as well, though it's a little shorter and more trade /action oriented than my typical ideas!

- 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
    - 100x: Almost There
    - Special Situations podcast episode 3: Andrew Walker
        - Yes, I'm plugging my own podcast appearance! While I'm worried I talked too much (being cooped up in an apartment all day for months is tough!), I enjoyed it and I hope you will too!
- Premium service recommendation of the month: Raper Capital
    - Look, the service is good. The ideas are unique and edgy. So unique and edgy that I'm willing to

forgive that he suggested launching "Raper as a service" last month. I'm honestly surprised Twitter didn't ban his account for that one; at a minimum, he has to be on some type of watch list for that suggestion, right?

- Joking aside, I often think to myself, "Andrew, there's a whole world of stocks out there. You have a global mandate. Should you really be spending so much time on U.S. companies?" Jeremy's service is really good for that; most of the write ups are on small/mid cap international stocks that I would have never heard of without him, and many of them trade for valuations that would be borderline unheard of in the U.S. Over time, my portfolio has gotten more and more concentrated, and I think the highest praise I can give his service is that nearly every stock he's recommended I have at least considered if I needed to sell something in my portfolio to make room for his rec (in fact, I am kicking myself that I passed on one such rec. I did a lot of work on Gan and passed on it; I think it's up 5x since then).
  - Bottom line: if you're into deep value / international investing, you really should subscribe. It is pricey-ier than a lot of other services, but it's worth it.
- PS- if there's a blog or service you like that you think I should follow / potentially recommend, please let me know. I'm always looking for good new sites to read and highlight!

- One more plug: Daloopa
  - One more plug while I'm here: knowing my interest in the media space, the team at Daloopa was kind enough to share an industry model for all of the domestic TV networks (DIS, CMCSA, VIAC, FOX, DISCA, CMCSA, AMCX, MSGN, SBGI, LGF).
    - One of the toughest things about being at a

small shop is building out an industry model. When I used to be at larger shops, I could spend all of my time on one industry, so I could easily spend a week building out an industry wide model. As something of a one man shop / generalist, I can't do that for every industry I'm interested in anymore. The cost/benefit is simply too high. That's why I like the Daloopa model so much: it's much more detailed than anything I could build on my own, and it auto-updates so I don't have to spend several days every quarter updating an industry model (I maintain my own cable industry model that I spend ~two days every quarter updating it after all the cable companies have reported, and I can assure you it's no where near as detailed as the Daloopa model).

- Anyway, I don't get paid or anything for recommending this (I don't get paid for anything I recommend; I'll let you know if that ever changes!). I just like the team at Daloopa and I thought the model was really good / useful, and they were willing to share it with my readers for free. I'd encourage you to check it out.
    - I may start working with them and having them build models for companies I write up, which I think would be a win / win for readers as it would let them dive into companies I mention quicker. Let me know if you like / don't like that idea!

Monthly Pondering: Inside Kylie Jenner's web of lies

- The whole article is great. I did think it's funny the end point of the article is Forbes "more realistic" accounting of Kylie's net worth puts it at just under

$900m, or just outside of the three comma club.

- But how Kylie's car's doors open is not what I wanted to talk about (see the video if that doesn't make sense). What I wanted to talk about is something I've been struggling a lot with as an analyst: how common place exaggeration is (and I'm using the term "exaggeration" very generously!).
    - Exaggeration is obviously nothing new in any industry, but I feel like the adjustments for it are beyond my depth recently. An example might show this best: Tesla has famously significantly over-promised on a variety of metrics. Last year, Elon Musk promised a fleet of self-driving taxis would be available by 2020, and the stock shot up in response. In the old days, it seems like this would have been a pretty simple trade: the stock was up on news that was borderline impossible (ignoring the tech issue, there was no way regulations would let them roll out a fleet by year end 2020. Year end 2022 would be aggressive!), so short the stock, wait for the deadline to be missed, and profit as the stock fell to reality. Things haven't exactly worked out for that trade: while the deadline will be missed, the stock has more than tripled since then.
    - I don't mean to pick on Tesla here; that's just the easiest example to highlight.
- Obviously, the trend towards exaggeration has huge implications for short sellers. It's no longer nearly enough to just short outrageous claims and wait for them to fail (and, even if you do, regulators might investigate you instead of the fraudster!). But it has huge and frustrating implications for longs too: managers have realized that the market will not penalize them for making "aggressive" exaggeration, and in fact might reward them for doing so. As a long focused investor, I increasingly find myself needing to try to

discount clear exaggerations form management teams. I'll find myself thinking things like, "Ok, these guys think they can build a factory for $100m in a year; there's never been a factory built for under $200m in two years, so maybe call it 1.5 years and $150m?"

- The simple answer here might be, "only invest in management teams you trust!" Cool, yeah, that makes sense... but exaggeration still has a big impact on you as an investor. Maybe you trust one management team, but what about their competitors? It's really tough to assess a market or how much competition there will be in a market when every competitor feels comfortable "exaggerating" their growth ambitions and plans. Or what if you invest in a trustworthy management team, but they're beaten by a competitor because the competitor's "Exaggerations" results in them having such a low cost of capital (from raising money at egregious valuations) that the competitor can simply outgrow them? I posted on IWG a few months ago; a huge issue for them over the past few years was they had a competitor (WeWork) raising money at such insane valuations that they could grow at literally any cost (including signing leases and acquiring customers on mammothly unprofitable deals). A few more years of that type of growth, and WeWork could have destroyed all of their competitors simply because WeWork had the money to do deals that were guaranteed to be unprofitable.
- After I wrote this, I had a talk with Byrne Hobert (he writes The Diff; I recommended it in April's links) and he compared fraud to an invisible credit line with unknown limits and covenants. I loved that comparison (and thought a little bit about using it publicly first and taking credit for it), and I think it highlights both the dangers of shorting fraud and investing in

companies competing with fraud. Perhaps the solution is to find something that benefits from a "fraud bubble;" for example, when WeWork was getting valued at tens of billions of dollars, maybe the answer was not to bet against it by going long IWG or short WeWork (if WeWork had been public). Maybe the right answer was to simply buy up office building REITs; if WeWork continued to grow, there would be unlimited demand for leasing space and eventually WeWork would have started buying all of their buildings at a premium (as they had started to before they exploded). If WeWork blew up, the building was still there and could be released!

- There's no solution here. Fake news, lying till you make it, etc. are obviously mammoth problems for society and they're only going to get worse. It increasingly seems like the world favors whoever is the most shameless and most unethical among us. Obviously there's always been some advantage to having no shame, but the internet seems to have turned a lack of shame from a small advantage (with some serious downside risks) into an almost superpower.

Bonus pondering: Insider selling / Confused follow up

- I've mentioned a few times how confused the current stock market has me, and in last month's post I discussed how the current market rip is coming in the face of the most insider selling and corporate equity issuance I'd ever seen.
- I wanted to highlight an example of the type of selling that makes me so cautious. Here's a form 4 from MAR's Americas President. He has a bunch of stock appreciation rights (SARs) that expire in 2022 and 2023. This form 4 is him blowing out of ~a third of his SARs today, two to three years before his SARs vest. That's really weird; a

SAR is basically an option with a zero dollar strike price. Exercising the SAR early is very suboptimal as you lose the time value of the option; obviously the time value is lower in a zero interest rate world, but there is still some time value there. Everyone's situation is different (i.e. you might need the proceeds to pay for a kid's college or something), but in general the only reason to exercise a SAR early (and take the tax hit!) is because you're bearish and want to cash out before the market crashes.

    - I don't want to read too much into one man's form 4. But, again, I'm seeing stuff like this across the market, yet the market just keeps going up. It's a really strange dichotomy.

- Of course, just because insiders are puking shares as fast as possible doesn't mean stock can't keep screaming high. For years, one of the (many) bear thesis points on Tesla was insiders sold their stock at literally the first moment they could at basically all times. For example, here's their CFO blasting out of a ton of RSUs basically the moment they vest, or their Auto President exercising and selling a ton of options six years before they expire (truly crazy stuff for a stock as volatile as Tesla; that's a lot of option premium wasted!), or a board member / Elon's brother blowing out of some options five years before they expire. None of those sales have meant anything for Tesla or kept the stock from absolutely rocketing higher; perhaps the insider sales across the board for the market mean nothing as well!

Bonus bonus pondering: megacap tech implosion probability

- One of the things I've been thinking about a lot this month is what are the most non-consensus bets in the market that could actually happen (with the idea behind it that maybe they could be undervalued or there could

be some optionality in betting on them). There are some obvious contenders: interest rates going up sharply, a big inflation cycle, American institutions continuing to devolve and turning us into a banana republic, a third world war, etc.

- When I've tried to think about it, the thing that I keep coming back to that I think is both nonconsensus and has some decent chance of happening (certainly higher than the market thinks) is one of the megacap tech companies (Amazon, Facebook, Google, Microsoft, Apple being the five major ones, though you could probably throw a few others in. Netflix certainly belongs in the discussion!) being absolutely rocked over the past five years. I don't mean rocked in a "it's a zero" sense (most of the companies run super conservative balance sheets, so it would be tough for them to zero!), but in a "the stock is down 50-75% over the next ten years and massively underperforms the index" sense.
    - Right now, I know such a thing sees crazy. But history suggests there is a certainly a decent chance. I was just flipping through a chart of the 10 largest companies in the S&P 500 over time; obviously, things got a little wild in the tech bubble, but even if you ignore that and look at something like 2003's top companies, three of them (GE, Citi, AIG) would need bailouts within ~5 years. Exxon topped the chart in 2011 with IBM coming in fourth and Chevron in fifth; all three generated negative returns and massively underperformed the index over the next decade. Is it so crazy to think that one of the mega tech companies could see something similar happen?
    - What could happen that could cause such destruction? Honestly, the easiest to imagine is that one of the tech companies gets "eaten" by another. The obvious example here would be Amazon Prime Video plus Apple TV slowly and then rapidly

overtaking Netflix, but there are other examples you could imagine. Apple's extraordinarily dependent on the iPhone ecosystem; it's not impossible to imagine a world where a tech company launches a phone that's so much better than the iPhone (either just on a capabilities basis or on a price/value basis) that the iPhone ecosystem is destroyed. China tech companies are another possible answer: could TikTok destroy Facebook / Instagram? Seems unlikely but moats and network effects build up quick once they get going; they also unwind quickly when they're falling apart. It's not impossible that happens to Facebook.

  - The hardest company for me to imagine imploding? Amazon. Their physical infrastructure and the subscription nature of prime just seem like an insurmountable moat.

- An interesting observation: when I tweeted out asking what it would take to destroy a big tech company, most of the responses focused on two things: Netflix being the most vulnerable, or some type of regulation destroying one of the companies (antitrust breaking up Amazon; just general regulation for social media hitting Facebook, etc.). I would actually disagree on both counts: while regulation or antitrust would slow the megatech companies, I think the history of regulation suggests that it stalls the stock price, not sends it screaming down. And maybe Netflix is the most vulnerable given how many people keep dipping their toes into their space (HBO max, Peacock, Apple TV, Disney+, Amazon Prime Video, Hulu, etc.).... but if there's one thing I'm 100% positive about it's that people will want to watch TV and be entertained 10 years from now. People today are willing to pay Netflix money to

watch what they produce, and more people are willing to fork over money to Netflix than for any other company's content. Netflix has scale advantage (and that scale advantage is going to really increase as they flex their muscles during Covid currently!), a product people are willing to pay for, and a product whose popularity only seems to increase (TV consumption rose ~1h/day from 2009 to 2017). Maybe I'm being too cavalier about the competition (in particular, I have ignored the growing time threat from video games; those two worlds will continue to merge), but it feels like every would be Netflix competitor burns a ton of cash to try to compete and ultimately doesn't impact Netflix (facebook and youtube's content pushes were basically written off, and other competition hasn't really put a dent in Netflix). I feel like I can see Netflix's future a lot more clearly than I can, say, the future of search for Google or if an iPhone will still be the dominant device in 2030 (maybe there's a better, cheaper smartphone, or maybe we use something completely different than phones!).

- One other thing while I'm here: of the major tech companies, only Facebook, Amazon, and Netflix are still run by their founder. I think that's a little bit of a double edged sword; if the founder wants something done, it's going to get done, and if the founder goes off the deep end it can lead to implosion. But ultimately it's probably a good thing; tech can change fast and a founder is likely to be much more sensitive to an existential threat than a typical CEO, and the founder is much more likely to get the buy-in needed to rapidly respond to an existential threat.

- It's entirely possible I'm not being creative enough here; if you have something that you think is pretty non-consensus and significantly more likely to happen than the market seems to think, I'd love to hear it! Probably the best way is to reply to this twitter thread, but you can also email me if you'd prefer. I'll post some of my favorites / the most interesting ones next month.

Other stuff I like- This is slightly embarrassing, but I had a long list of articles I was going to share and my computer crashed so I lost many of them! Here are a few I had typed out before and after the crash!

- Invest like the best podcast: the art and science of the bundle
  - For me (and, I suspect, many of you) there was nothing crazy new in this podcast. I attempted to hit many of the points he hit in my cord cutting guide. But here's the thing: the mark of a true expert is the ability to clearly and succinctly explain a concept, and I'm not sure I've ever heard the bundle explained so clearly and succinctly. One of the best podcasts I've listened to in a while.
  - One thought I had leaving this podcast: over the past ~ten years, I suspect the best investing strategy has been to buy stocks of companies that people would get the logo tattoed on their bodies (Apple and Tesla come to mind). For me, this podcast reinforced that type of passion is going to be a great strategy going forward. Companies are going to be desperate to acquire companies / products that consumers love in order to lock in consumers to new bundles. The trick for investors is to find companies that generate mammoth consumer passion where the market hasn't priced

that passion in yet.... (if you know of any companies that fit that bill, I'd love to hear about them!)

- Boaz Weinstein is making banks he's not happy you know about it
    - By far the most interesting piece of the article (to me) was on the closed end funds that could be forced to liquidate.
- Lessons from a fintech scandal
- You've shared your netflix password with your entire family; now you can't watch netflix
- KKR Spends big and fast to avoid mistakes of 2008
- Interview with HBO max CEO
    - I'm not sure even he understands all of the different HBO buckets
- Is this Europe's Berkshire Hathaway (article on EXOR)
- US companies issue shares at fastest rate ever, selling the rally
    - I mentioned in my May ponderings that I'd never seen insider sales and equity issuance at the rate I was seeing currently; this supports that.
- History will judge the complicit
- MSGN expands board to 13; adds another Dolan
    - What a joke
- Amazon is looking to add live TV to Prime video
- How Adam Silver, Nba Stars, Owners negotiated playoffs
- Inside MLB's financial fight and the numbers to solve it
- Inside Twitter's Trump Decision
- Brookfield's Brian Kingston talks Covid-19
- New Yorkers return to the office; most are staying away
- Kohl's CEO says store is changing faster than ever expected
- Interview with Sternlicht
- How netflix learned to stop worrying and love youtube
- NBC lands US golf rights