Some things and ideas: August 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early May or "Equinox won't pay April rent," by the time I post those articles in late April the information is wildly out of date (people will be more concerned with Equinox paying May rent!)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), and we updated it (and the rest of the website) with version 2.0 in August. I've had a lot of fun doing the premium site so far; if you enjoy the free blog, I think you'll love the premium site, so I'd encourage you to subscribe.
  - 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!
  - Subscribing this month is particularly timely, as we're raising the annual price from $399/year to $499/year tomorrow, so subscribing today will let you lock in the lower price.
- 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
    - The depth report: las vegas sands update
    - ClarkStreet looks at CLNY
    - Premium service recommendation of the month: Scuttleblurb
        - Figured it was particularly timely to recommend this month on the heels of our podcast. I said plenty of nice things on that pod, so I'll keep my recommendation here brief!
        - If you're into deep dive, fundamental research (which I suspect just about every reader of mine is!), scuttleblurb is an absolute steal. Every post he publishes is

like a sell-side initiation on a stock / industry, except better.

Monthly Pondering: Demand pullforward versus permanent increase

- One thing I've struggled with in the current environment: a lot of trends have changed in response to the pandemic. How much of those changes are permanent versus temporary? Some examples might show this best:
  - Right now, home builder stocks are flying because people are buying houses sight unseen. A lot of this buying is driven by people leaving the cities for the suburbs. So the current financials look great.... but what about two years from now? Are home sales permanently a little higher because city living permanently looks a little less attractive? Or are we going to have a glut of homes in a few years as some of the people who left the city during the pandemic look to return to the city?
  - Similarly, home improvement is doing really well right now, as people stuck at home decide to build a deck or upgrade their kitchen. But is this all pull forward (i.e. people doing projects they would have done next year today) so that next year earnings are going to look awful? Or are these new projects that would have never happened without the pandemic (i.e. I would have never put a deck on my house, but it was Corona and I had tons of time to be outside so I figured why not?), so the earnings this year are a one time boost and next year returns to "normal"? Or does the current environment actually boost demand higher permanently (a bunch of new people bought houses + people discovered the joys of home improvement + all of those new decks will need to be serviced,

so a lot of the current boost is sustainable).

- I'm not sure. But incremental sales tend to produce pretty high margins, and I would guess that there is a lot of alpha here if you can correctly identify a trend one way or another. There's also a lot of risk for managers: if you're home depot and you're planning for next summer, what level of demand do you plan for? Normalized demand (around 2019 levels)? The current "buy everything home improvement" levels of demand? Something in between? Something lower? Choosing poorly could cost your organization a bunch in lost sales or excess costs!
- The reverse scenario is also interesting. I've mentioned several times my fascination with cruising demand during the pandemic. Obviously any cruises that couldn't happen over the past few months are "lost" forever, but I bet demand is wild once cruising returns (and the parties from cruise lovers finally allowed to take the vacation they love will be absolutely Bacchanalian). There could be really interesting implications there as well: If you're a cruise line and all of your customers are just thrilled to be back on a cruise, I bet all of the onboard services sell really strongly and have really good pricing power. Same for bars and clubs- people have been cooped up for months; when clubs open the youngsters are going to want bottle service, and I bet they'll pay a premium to get it.
- So something I've been thinking about- are there any things that the pandemic has "cancelled" that will see massive pricing power and huge demand once allowed again? Or is there anything that the pandemic has stopped where the demand is actually completely deferred and not lost (i.e. with cruise ships, any cruises over the summer have been lost

for all time, but the pandemic delayed a bunch of elective surgeries and those will still happen at some point in the future; they've simply been deferred).

Bonus pondering: Long term valuation metrics... misleading or a warning sign?

- Over the years, I think the thing I get pinged on most frequently from investors on "why to be cautious" are either market cap to GDP stats or Cape ratios. For the most part over the past ~5 years, these have been higher than historical trends. For example, as I write this the Shiller PE is at ~32x versus a historical mean of 15-16x.
- I get the worry, but I can't help but wonder if worrying about CAPE ratios or market cap to GDP is missing the forest for the trees. The largest companies in the indices (Apple, Google, Microsoft, etc.) are better businesses than anything the marker has ever seen. Their returns on incremental capital are off the charts, they are much less cyclical than the largest businesses of yesteryear, their growth opportunities are much more interesting, and honestly it's just harder to think of something that could kill them than the giants of 20-40 years ago.
    - An example might show this best. In 1965, of the 10 largest companies in America, you had the three major car companies (GM, Ford, Chrysler), U.S. Steel, and then four oil majors. All of those are somewhere between somewhat cyclical to super cyclical companies. Growth for those companies is also extremely, extremely expensive as those are very capital intensive businesses. Growth requires buying a new steel plant / car factory / oil well. Comare 1965 to the 10 largest companies today: about half of them are in insurance / healthcare,

which is not cyclical at all. Apple and Amazon are tech businesses with lots of subscription revenue, reducing cycality. Walmart sells consumer staples for the most part. I'm not saying any of these businesses are invincible or won't have some cyclicalty, but on the whole they should be much less cyclical then the businesses in 1965. And there returns on capital should be much, much better: someone buying an incremental app on Apple's App store comes at basicaly 100% incremental profit for Apple.

    - I get there are issues with the comparison. I'm using Fortune 500, and revenue really isn't the best way to measure companies. But on the whole, the point is easily valid: today's large companies are way better than last years, and they deserve a much higher multiple as a result.

- I wonder if Cape ratios suffer from another issue: the tech companies have grown so fast that they may have broken the historical earnings ratios. The Cape ratio is pretty simple: it takes the S&P 500 average earnings over the last 10 years and uses them to value the market today. That works well if the underlying components of the market are reasonably stable. But that's no where close to the case today. Again, a simple example probably illustrates this best: using a 10 year average earnings includes earnings from 2011-2013. Think of Facebook / Amazon / Google businesses in that time frame. They have literally no comparison to today's. Facebook hadn't even IPO'd in 2011! It seems silly to put much faith in a metric that judges these enormously growing and fast evolving tech companies on what they were earnings 10 or 5 or even 3 years ago.

    - And of course, none of this even considers interest rates. A CAPE P/E of 15x when interest rates are 6% pretty much the same thing as a CAPE P/E of 30x when interest rates are 3%, no?

Bonus bonus pondering: company culture versus work from home

- One of the things that surprised many people in March / April was how productive people were working from home. I know it's lead to a lot of people calling for the end of offices and everything. I'm skeptical. Every company suggests that their culture / employees are their moat, and every compounder investor loves to harp on how the companies they invest in have an edge because competitors can't match their culture. How do you implement culture if everyone works from home? In the short run (i.e. March and April), it's not a concern because employees have the culture ingrained in them. But in the long run, habits get shook and new employees join. If culture really matters, I think you need some in person, day to day interaction for the culture to really hold.
- Anyway, not really a pondering, more of a rant. But something I've been meaning to put out there for a while (I think I've written a draft of this in like 4 different articles and taken it out), so I figured I'd just do it now!

Podcasts

- I launched the Yet Another Value Podcast in August. They've been a blast so far. You can follow on Spotify, iTunes, or YouTube. This month's pods:
  - Jeremy Raper on StoneX
  - Elliot Turner on Dropbox
  - Mike / Non-Gaap on the Corporate Dark Arts
    - A nice tweet thread summarizing this one
  - David Kim / Scuttleblurb on Carvana

        - Mario Cibelli on Uber
            - Good tweet thread with notes
        - Byrne Hobart from the Diff on the Death of FANG+
    - As always, if you have recommendations for the podcast, I'm all ears (pun intended). The most helpful would be to hear people you'd like to hear on the podcast (again, all puns intended), but any suggestion is always welcome!
        - And don't be scared to recommend yourself if you think you'd be a good guest! I can't just interview every person with a trading account, but if you'd be a good interview I'm happy to consider anyone!

Other things

- The Rock buys into XFL
- Baseball draws strong ratings in opening week amid season uncertainty
- Bubbles are working, but how long can sports stay inside
- Commercial Properties' Ability to Repay Mortgages was Overstated
- Interesting tweet thread on how normal news articles can get overtaken by conspiracies
- In prison, learning magic by mail
- Dolly Parton steers her empire through the pandemic
- Authentic Brands has $1B to buy troubled retailers
- Manhattan rents plunge 10%
- Going public circa 2020; the SPAC
- Germany puts on concerts to study COVID risks