Notes from the podcast cutting room floor

I taped an episode of the Business Brew last night (it was something of a "home and home" podcast, as Bill had come on YAVP a few months ago). Bill told me it will be released in a few weeks, and I'll be sure to link to it when it comes out.

Whenever I make a speech at a wedding, I always start off by saying, "This is going to be difficult for me, because I hate being the center of attention" and pause for laughter from the people who know me and thus know how silly that statement is. But because I love the sound of my own voice, one of the toughest things about being the host of YAVP has been just shutting up and listening / letting the guest drive the conversation (I think the biggest mistake I made in the first few episodes was injecting my thoughts / analysis too much; as a host, I want to push back and ask interesting questions but my role is to let the guest shine). So I love going on other people's podcasts because I can flip the script and generally ramble about whatever's on my mind; I don't think I've ever rejected an invitation (hint hint if you're considering inviting me on something!).

Still, even though I love rambling, I also have a wicked fear of being unprepared and/or boring. I've really enjoyed all of the past episodes of the Business Brew, but his podcast format is ~2 hour long conversation. That length and how much I've enjoyed past episodes played to a ton of my fears and insecurities (can I keep a conversation going that long? Will I bore listeners to death after thirty minutes? How the heck can I compare to the Dan McMurtrie interview, perhaps my favorite pod of 2020? Will I just start rambling and embarrass myself an hour into the podcast?).

With that anxiety in mind, I probably overprepared for the podcast (poor Bill had to deal with multiple DMs prepping for the podcast and a two page long possible topics / notes email). Still, I think it went well, and there were a ton of things in the preparation that have been rambling around my head for a while that I wanted to write about.

There were four areas in particular I wanted to hit in the podcast / had prepped for: SPACs, Chamath, Getting Better as an Investor, and Current market environment / Special Sits. Below are some stream of thought notes I had for all of them; again, these were just notes I had going into the podcast. The podcast went a lot of different areas and these notes aren't meant to be definitive; just figured I'd share because I had already done a lot of work prepping them!

SPACS (did a deep dive on the craziness of CCIV here)

- The big advantage for SPACs appears to be in the disclosure rules; if you go public through IPO, you can't do forward projections. If you do it through a SPAC, you can provide forward projections.
    - Those dynamics have driven SPACs to look much more for start up / growthy businesses than more value type businesses. The dumbest thing you could do as a SPAC sponsor right now is buy a low growth business at a value multiple; you need to buy something sexy and show that it's cheap five years out.
- It's a really wild bubble, but there's a mammoth

opportunity set out there

    - The risk reward is out of this world. Right now, SPACs are routinely trading up 20/30/40% on news of a deal. Say you just go buy a random SPAC at $11/share (10%) above trust value. You're risking 10% ($1/share) of your capital; if the average SPAC is going up 30% on a deal announcement, why not risk that? You're risking $1 to make $3. Sure, it's a speculation, but it's a calculated speculation and the risk reward is really juicy. How is this different from a merger arb? Plenty of people will buy a stock at $79 hoping a deal closes and it goes to $80; yes, this is more intangible / speculative upside, but the downside is much, much firmer on this speculation given all the cash in trust for a pre-deal SPAC.
    - Obviously this is a simplified example; if you dig a little harder and go a little more tangential, I think there are plenty of other really interesting plays that will make a lot of money from the SPAC bubble. I pitched two on the premium site recently (both my January and February idea).
- The amount of shenanigans going on here is crazy. As we get deeper and deeper into the SPAC bubble, we're going to see companies going public with less and less due diligence and more wild projections. We're already seeing lots of questionable mergers:
    - CLOV went public without disclosing a DOJ investigation
    - NKLA's product was a truck they rolled down a hill
    - The stuff uncovered at TRIT was pretty wild
- At some point, I think there's going to be an examination of the conflicts of interest here. That point is not today; the market is too hot and people are making too much money. But at some point hard questions will be asked
    - The most obvious conflict of interest is for

    - sponsors with multiple SPACs; how do you decide which opportunity goes to which SPAC?
    - But there will be other harder questions going forward. Basically every private equity firm is raising a SPAC (KKR filed to raise $1B last week). How does that work with their private funds? If KKR gets a new deal in their pipeline, how do they decide if it goes to their private equity fund or their SPAC? What about firms that are raising SPACs to take companies in their portfolio public? I believe Softbank raised a SPAC and explicitly said that they'd take one of the vision fund portfolio companies public with the SPAC; who handles the valuation there? If you're on either side of that transaction, how do you feel comfortable that Softbank isn't taking advantage of you (if you're a seller, how do you get comfort Softbank isn't lowballing a deal to advantage the SPAC; if you're a SPAC shareholder, how do you get comfortable Softbank isn't paying an inflated price to juice their returns?)

Chamath

- Chamath is a really controversial figure. It's tough to argue with his returns, but a lot of the stuff he does screams "huckster."
    - I cannot believe CLOV had a DOJ investigation and didn't disclose it as part of their deSPAC process
    - I find myself irrationally angry at what he did with Gamestop. He absolutely added fuel to that fire (without him, the bubble dies several days earlier and doesn't blow nearly as high). I had multiple friends text me asking if they should buy Gamestop and saying his option buy got them

interested

- Every time he announces a new SPAC deal, you'll hear a wave of people who say "that company he's buying was desperate; they tried to raise capital at a $4B valuation a few months ago and no one would touch them; now he's taking the whole thing public at $20B." and the stock will still double / triple. You'll also hear rumors that the DD process is..... not particularly robust (rumors the CLOV DOJ investigation has certainly done nothing to dispel). I think the success of his SPACs raises an interesting question: is he just riding a wave / bubble, and it will all come crashing down at some point? That's a popular contention among his critics. Maybe there's some truth to it. But I think the truth is a little more complex. He's obviously got an incredible eye for spotting trends, and I tend to think a lot of his success comes from a form of arbitrage: Chamath sees sexy stories that private markets aren't willing to fund but that public markets would easily get behind, and he's consistently exploited that arb. Again, maybe that skill is only useful because of how generous today's markets are, but there was an arbitrage and he took full, full advantage of it. And doing so created a flywheel: he generated a reputation for himself, and now future SPACs from him are going to have an incredibly low cost of capital, every company in the world is going to want the attention an investment from him comes with (boosting deal flow), etc.
  - His thesis on Tesla converts is the perfect example of this. Anyone who has dealt with convertible debt found his understanding of the instrument laughable.... but he was absolutely right on the stock price and

company, and that's all that mattered.

- I guess the counter to this is: I wonder how much of his success is scoreboarding based on stock price? If he had pitched that Tesla convert and then the company went bankrupt (as they almost did), how much weight does his word (and Elon's) carry?
    - While the early returns from his SPACs have been substantial, this is all based on hype / multiple expansion. They haven't really delivered "the goods" (healthy financials and profits) yet, and they won't be able to for years.
    - I have mentioned this offline to a few people, but I'm calling dibs on it now: in 2022 or 2023, I'm going to go back and compare how each of Chamath's SPACs did versus the projections from their proxies. Given how many growth companies he's investing in, the results should be interesting (though you could argue still way too short term; if you're investing in a business going to Mars in 2035, who cares if they miss 2023 revenue as long as they're on pace for their overall mission?

Getting better as an investor

- I'm trying to improve a few things as an investor
- Stop using trailing financials as a crutch. The big money isn't made buying something at 8x P/E and watching it grow to 10x P/E. Money is made buying something on future financials, often when the trailing financials are messiest. Most of my wins have come on something like Charter or Match; they look crazy expensive on historical financials, but if you look a few years out and think about how important they are they've got huge optionality and potential.
    - Look at something like Twitter. Way too expensive

on trailing financials.... but compare their current valuation the their power and attention. They basically ended Trump's presidency when they booted him. How is a platform with the power to send someone to the White House (and then end their time in it) not worth more than $40B? Think about all the different areas they have optionality to move into.

- Being willing to buy something even when it's moved higher. So many times I'll look at something when it's at $10, pass on it, and then watch it run.... and then I'll never be able to rationally revisit the stock for as long as it trades above the price I first looked at it. I'm just too anchored to that historical price. I'm trying to do a better job of ignoring my history with the stock and being willing to buy just when something looks too cheap.
- Building the conviction to hold on to winners. The other side of the coin; I'm trying to do better at holding on to winners. Consider ANGI: I wrote it up at ~$12, and the stock's rapidly run from $12 to $18. It's really easy to see that fast move and sell the pop..... but if I think the stock is a $60 stock in ~3-4 years, there's still tons of upside. Do a better job of holding stocks through big moves

Current market environment / special sits

- Things definitely feel frothy, but I think there's lots of opportunities to buy things on the edges that are benefitting from the frothiness.
    - Worthington is a good example; they had an investment in NKLA that the market simply ignored. If you looked through that, you were getting the core business at a really good price. Plenty of

others examples like that.

- Sum of the parts (SOTP) investing is really interesting right now. If part of the company is growthy and you think the market is ignoring that, the hot SPAC market means the company could quickly monetize that piece, likely at a huge premium to what the market is pricing in.