WALL STREET UNPLUGGED

AUDIO TRANSCRIPT

Frank Curzio: How's it going out there? It's Wednesday April 19th. I'm Frank Curzio, host of the Wall Street Unplugged podcast where I break down the headlines, and I tell you what's really moving these markets. I think I'm going to stop watching financial television. It's not like I don't like the analysts, or the anchors, it's just the content is getting real bad.

Take the United story for example, which is so awesome. If you don't know the story by now, put on CNBC, Fox business news for five minutes and they'll mention it 11 times. Basically, a doctor got pulled off the United flight after they had to make room for crew members. He didn't want to get off the plane. He said, "No, I'm not getting off. I'm not getting off." So security basically beat the crap out of the guy and dragged him off the flight. In this day and age, which you have to expect, passengers took out their cell phones and taped the incident showing this guy getting dragged of the flight, and now United is in damage control mode.

It's everywhere. It just keeps getting reported and reported and reported, but what I love is how the media portrays these victims. I'm quoting here because this is a doctor who fled war-torn Saigon before immigrating to America in 1975 was released from the hospital Wednesday but will need reconstructive surgery and remains shaken by the experience. His lawyer goes on to say that being dragged down the aisle was more horrifying and harrowing than what he experienced in leaving Vietnam. In leaving Vietnam.

Now, listen, if that's worse than anything you experienced in war-torn Vietnam, then you probably didn't run into too much trouble when you were there, if I had to guess, because all of this could have been avoided if you just got off the plane like they asked you to. I know it's frustrating as hell, and United is 100% wrong here. It's not the point.

This happened to me once. They took me out of first class, and I was really ticked off, and they tried to tell me, "You may not be able to be on this flight all together," and then they changed their mind, and said, "Okay, we'll give you a reg seat." This happened to me. I didn't go crazy, and say, "No, I'm not getting of this flight," and

go nuts, but if a security guy asks you to get off a plane, and you basically say, "Go F yourself," you have to expect that you're going to get dragged off the plane, right? That's definitely guaranteed going to happen. That's the outcome 100% of the time. When you say, "No, I'm not getting off this plane," you are going to get dragged out. If you continue to resist, they're probably going to beat the crap out of you.

Again, I'm not saying that United was correct, but you have to expect to get pretty close to a beating and dragged off the plane if the security guard asks you to get off the flight and you're like, "No, there's no way I'm getting off the flight." But what I love is how they portray this doctor, like the security guards went over, they asked him to get off the plane, and he said, "No, sir. Can I please stay on?" And then they beat the crap out of him and dragged him off the plane.

I mean, come on. It's like those date lines and 20/20's. I mean, I was watching one not long ago with my wife, and they show pictures of a husband. They set it up, "Oh, it's a small town, in Little this," and they have this whole voice, and he's playing with a small dog. He's smiling, and then they say, "He's such a nice person. Not one enemy in the world. Never argued. Great husband. Donated money to charity, helped walk old ladies across ..." everything they just paint this perfect picture. Then they say, "Nobody knows why his wife stabbed him 36 times."

I mean, this was actually on one of the shows. I'm like, "Thirty-six times? He as such a nice guy." I mean, murder is murder, but if you're stabbing someone you love, you said that you loved, 36 times, I can't see that person being as nice as they're portraying him in those pictures. I mean, he had to do something that made her go crazy like that because there's other ways she could kill him that's not stabbing him 36 times. Then you find out when you watch the whole show that he was sleeping with a bunch of her friends, he was lying to her. Again, I'm not condoning what she did at all. It's a tragedy, but the media can make or break a person just depending on how they feel like reporting.

That's pretty insane when you think about it. It's actually terrible. I'm not making fun of this, but the media just loves painting these pictures and they keep running the story on United every five minutes, destroying United. The headlines are the best. Here are a few just from the past week, where it says, "United Shares Slides PR Nightmare Catches Up with Them." The next one was, "United Shares plummet by $800 Million after passenger fiasco."

In the meantime, what really happened? The stock fell to 68, recovered almost immediately. They reported decent earnings. The stock is actually up since this incident happened a week ago. So much for the PR nightmare. You would think the company's going bankrupt. There's nothing else to talk about since Trump hasn't been Tweeting over Easter weekend. Financial media has been running this constantly, running this United story constantly, again it's almost like United, they're not going to make it. They're going to go bankrupt. If you listen to the media.

It's not just United, because on Monday after the close you had Netflix report earnings. They slightly missed estimates. I'm not a fan of Netflix, again, this is a company a recommended you buy a very long time ago. I guess, you should be doing amazing on it, but they're talking about Netflix after the estimates, because subscriber growth was just a little bit light, but they're talking about it as though the stock is getting destroyed, like "Subscriber growth didn't meet estimates, both domestically and internationally. You got to watch out. The company is in trouble."

When you look at the numbers, they added 1.42 million subscribers, compared to 1.5 million, which was expected domestically, and internationally it was a little bit light, 3.5 compared to 3.7, so I see their argument. They were a little light on subscriber growth, but they didn't even really talk about the guidance, which was amazing. So basically a lot of subscribers didn't happen this quarter, but next quarter, they're expected to add 2.6 million subscribers, compared to 2.1 million. I

If you take all the information together, it's kind of a wash. The quarter was decent. Suddenly because of a mere, what? Two to three percent miss in subscriber growth in the quarter, I'm watching this as people come on, "Their content stinks now," "They're spending boatloads of cash," which is only about a 3% increase from previous years, which they're spending in content and streaming, which is a lot of money, but it's only a 3% increase. "They're spending $15 Billion on content and streaming," and all this stuff, just ripping them apart.

It's almost like they fabricate these stories because they can't just say, "Netflix reported roughly inline results." Why won't they say that? Because that's not marketable. You look at Netflix, it's down 2%. It's at 144. It's all-time high is 147, 148. You would think that's another company that just got destroyed. They're in trouble. All the growth completely stopped, when they barely missed estimates, and they reported great guidance.

When I look at this, it just frustrated the crap out of me because as I get older, time is a valuable commodity. I took it for granted when I was younger. I never cared about the time I wasted, but when I'm watching or reading something and by the end it's just a complete waste of time, I'm finding myself getting really pissed off, like, "I can't believe I just wasted 20 minutes listening to all this garbage."

Anyway, minor rant there, but more to the point, the media is great at manipulating the general public. It's what they do. They got to make you believe whatever. The way they report things, that's just what they do. When it comes to financial media, use it to your advantage, especially in a financial world. I mean, to maybe buy United on a pull back or Netflix on a pull back. Again, Netflix's going to pull back a little further. I thought guidance was great. The actual numbers are not that bad, but if you're looking at the financial media, and most media ... There are 24-hour media outlets.

Ninety-eight percent of the time, there's not enough news stories to fill an entire day, so to beat a story like United to death, which they also talked about a scorpion biting someone's neck in Calgary. He was on a United flight. They opened up the top thing, storage compartment, scorpion came down and bit a guy's neck, how a couple was asked to get off a United plane in Texas when they were flying somewhere to get married. You're seeing all these stories, like a PR nightmare, but when you really look at the facts, there's 1.7 million people that fly daily. I'm not ... I guarantee you, not every experience is going to be great that day. I'm sure a bag fell on one of those 1.7 million people's heads, or a flight attendant was having a bad day and cursed at a passenger who probably totally deserved it.

As an investor, use stories like this to your advantage. Analyze the numbers, do your homework, take time to look at Netflix numbers, as I have. Probably 10 analysts in a row destroy the company. It's down 2% from its highs, its all-time highs. It wasn't that bad. If you do that, if you do the homework, there's a strong probably that you can make some quick gains on stocks just by doing the exact opposite of what everyone on TV is telling you to do. So, just be aware of that.

I mean you guys know a lot of this stuff, the financial media, but just lately it's ugh. I just feel like I'm watching, wasting my time just listening to this stuff, and none of it's even true. I'm like, "Wow, come on guys, take it easy." It's pretty crazy. Anyway, mini-rant there. Let's move on because I have a great interview for you today. A close friend and one of the best analysts that I know. His

name is Chris Mayer, who runs the Bill Bonner portfolio for Bonner Partners. If you're not familiar with Bill Bonner, he's the founder of Agora. I'm going to put that in perspective. If you multiply the sales of Curzio research by about 40,000 that's how much revenue Agora achieves each year, since partial owners in Stansberry, Money Map, Agora Financial, Banyan Hill, which was Sovereign Society, Legacy. I mean, unbelievable what they've accomplished the last 30 years.

I've interviewed Bill a few times on this podcast. He's a great guy. I mean he does believe that we're all going to die tomorrow, but a brilliant guy, an amazing writer. If this is the first time you've listened to the podcast and are not familiar with Chris Mayer either. He's an exceptional writer, exceptional analyst who travels the world to find ideas for his subscribers. Every time he's on this podcast, he always gives us great ideas that are completely off everyone's radar, or basically shares picks that most people are not familiar with or have never heard of. This interview is going to share five of those picks with us. He'll also talk about banking since he's a former banking analyst. He's also going to share his favorite country to invest in right now.

A really awesome interview coming up. Then my educational segment, I'm going to cover an area of the market that you are conditioned to avoid at all costs. Horrible area to invest in. I'm talking about buying stocks that were created using this specific structure, which are normally viewed as a huge red flag, and according to most analysts and investors, we're talking about reverse mergers, and how maybe they shouldn't get that terrible rap from everyone, since sometimes reverse mergers can offer returns beyond belief. It's going to be a really cool educational segment.

Again, guys, listen to the facts before you make your judgment, because I don't know many investors who look to buy companies through reverse mergers special anymore. We all know what happened with China. It was 2011, 2013, a lot of fraudulent companies. The SC suspended trading on may reverse mergers. As you're going to see, it's a great way to generate exceptional returns if you're investing in the right companies within those revers mergers.

So, I'm going to explain this later more in this podcast. Be sure to give it a listen, but first, let's jump right in with my interview with one of my favorite analysts, Chris Mayer. Chris, thanks so much for coming back on the podcast.

Chris Mayer: Hey, thanks for having me on. It's always good to be on with you, Frank.

Frank Curzio: Thanks, man. Listen, I think it's been a while. The last time we spoke was I think before Trump became president it's been a little busy on my end. I'm launching newsletters for my company and stuff, but let me ask you this, has anything changed for you in this respect? I mean the methodology in how you pick and find stocks, which I'm very aware of, and hopefully we'll go over that a little bit later, but small and large caps probably remains the same, but after this election, does it put more emphasis on say, what's going on in the banking world or infrastructure, or companies with high tax rates that maybe would benefit from tax reform? Is there anything that you've looked at or changed within your structure of picking stocks now that Trump has become president?

Chris Mayer: Well, I would say no. I think the market has reacted pretty quickly to a lot of those themes and stories, so I've been reluctant to get involved in that. I mean, we've had the market rose, I don't know what it was, something like 10% after Trump's election based, at least on part you'd have to think, on the idea that you're going to get regulatory cuts, tax cuts, but so far, those have yet to materialize. That's a big move for the market to make and we don't have any tangible change yet.

In individual stocks you've seen a move in certain infrastructure stocks, and I'm not sure. I mean, I'm not betting on to come that he's necessarily going to be able to do all the things he said he wants to do, and we saw that already when he tried to repeal Obamacare and that didn't work out. So who's to say he doesn't get the same kind of resistance when he tries to tackle tax reform and we get something that's much less that what we might have thought initially.

So my approach is more focused on that bottoms-you approach and I would say really that Trump hasn't changed anything for me because I'm reluctant, again, to make that kind of sematic bet and say, "Well, now that Trump is president, somehow it's going to be more favorable for infrastructure stocks," or whatever the case may be.

Frank Curzio: Well, Chris, you know you're a former banking analyst, so I love talking about bank stocks with you, and they've made a monster run, again, where in anticipation of deregulation in the industry. I wanted to get your thoughts about it because a lot of times I believe there's too much regulation, and sometimes people say, "Well, what are we going to go back to the old ways where we can

get into the credit crisis?" But I think there's a medium there. What are your thoughts from someone who's an expert in the industry when it comes to deregulation? Forget about if Trump's gonna get that done or not. Do you think that's needed for bank stocks? Does that really impact lending? Is it gonna be good for the bigger banks, the smaller banks? What are your thoughts on this whole deregulation thing, just say if it does happen?

Chris Mayer: I've talked to bank presidents. That's one of the first things they will mention, is the cost of regulatory compliance, especially the smaller banks. Not so much the larger banks, but the smaller banks where they're only making some of these small banks can only make a couple million dollars a year in profits. For them to adhere to all these regulations that have come down to the pike, it's a large expense for them. A significant percent of their net, and I know Trump did meet with I think there were a dozen small bank presidents. I'm sure that meeting, the number one talk was about the regulatory burdens.

I do think it does make a big difference for bank profitability and especially the smaller banks. What we see is the high cost of doing business is one of those things that is helping to propel mergers and acquisitions, because obviously, you take a small bank and fold it into a larger bank, you could do away with all of those extra costs. I don't think that's gonna go away anytime soon. I think banking is still interesting, because there are a lot of small banks in the US. We're talking thousands.

A lot of them are not necessarily or shouldn't be or won't be economic as stand-alones. It's an interesting place to invest. You can still find, although like you said, they've made a big move, so you have to pick and choose, but there are some banks that are still left behind. Some of them are still a pretty good size. One of the ones that we like and we have in the Bonner portfolio's CIT group, which is going through all kinds of transformation, they had an air craft leasing business that they sold. That sale price was like $10 billion, which was more than the market cap of CIT itself, which was seven billion at the time.

After taxes, after debt repayment and all that, they're still looking to return to share holders something like that's gonna work out to a third of their market cap, either through buy backs or dividens, they haven't decided yet. That's a stock that trades below book and it has a core, profitable banking operation attached to it. Something like that is really interesting to me. You can still pick and chose among bank stocks.

Frank Curzio: What about a higher interest rate environment, which is widely expected and said it's gonna obviously tighten or expect to tighten as the economy does better. How is that impact banks? Automatically, people say, "Wow, that's such a catalyst for banks" but is that, like you said, we all know how the move that these companies have made since the election and we have, I guess the regulation must be factored in and also maybe higher interest rates? Is that factored in? Is that as big of a positive for the smaller banks? What are your thoughts on that?

Chris Mayer: Normally, it's not just the absolutely level of interest rates that's important for banks, but it's the curve, what we call the yield curve. If the long term rates go up and the short term rates stay low, that's good for banks because they make more of a difference there in their spread, but a flat yield curve can be bad, so you could have rates go up and it could still margin for banks could still stay slim, but in general, I think higher rates are gonna be good for banks because they've suffered for a long, well, for several years. If you look at net interest margin for the industry, it's been falling, it's tight.

You'd have to think that higher rates will help ease that burden a little bit. It's always a double edged sword, because I remember even when I was in banking and we did a loan, if I did a loan and then I did it on a floating rate, I would say, "Oh, well this is good for the bank because it's a floating interest rate, so our margin stays the same, doesn't matter what interest rates do." Of course, the counter to that is that you've just transferred that interest rate risk to your customer, and now you have a client who has to deal with how rates may go up. So higher rates can impact the credit quality of a bank's portfolio, in a negative way. That might be a trade off that people forget to consider.

We had a long run here of pretty generally, what do you want to call it? Whatever you want to call, we're late in the bull cycle here and it's not unreasonable to think that lending standards have slackened a little since the crisis.

Frank Curzio: Let's move on from banks. Really great stuff, and thanks so much for explaining the yield curve, which is great, which people need to understand about banks, now, you're looking at, you're working for Bill Bonner and Bonner's private portfolio. For those of you who don't know Bill Bonner, Bill Bonner's the founder of Agora.

Amazing guy, and I guess we could start with this before we really get into details, I'm wondering the relationship with Bonner, because the head of Agora, is there ever a time where you come

up with a stock pick and he's like, "Well," do you have any authority to say, "Hey Bill, this is gonna work just trust me" or is it kind of like Bill's like ... I got to think that relationship, and Bill's such an easy going guy, but man, having to work next to the founder of Agora, the founder of the largest financial publishers in the world, it must be pretty cool to work with him, but I'm just wondering that relationship and how cool, because I know you guys have been friends for a very long time.

Chris Mayer: Yeah. I'd say the way he does it is he pretty much just handed it off to me. He's not one to second guess any stock picks. In fact, he's told me before, we were in Nicaragua together just recently and he said, "You know, I believe all that stuff you write about. Peter Lynch and Buffet and holding onto these businesses". He does believe that, he's just very skeptical that anybody can really do it, but he believes in the idea. This is an interesting thing about Bill Bonner, because he spends almost all his time writing about Macro, because that's, as he told me, that's what interests him the most. He likes thinking about big picture and what's going on in the world and thinking about more philosophically about the monetary system and the money and the money that we use, the banks, and the federal reserve. He likes to think about these bigger topics.

He doesn't really have any patience. He admit this, he doesn't have any particular skill in going to an individual company and trying to figure out what it's worth. He just has a general skepticism toward that, even though he believes the idea of it. Yeah, it's been great to work with him. Like I said, he's not shot down any picks. I've told him different times things I think will work and he just goes along with it. So far so good.

Frank Curzio: So far so good. You guys have a methodology to the letter, and again, it's something I've read. You call it CODE. The C stands for, I believe it's cheap, always owned and operated, D is disclosures, and E is excellent financial conditions.

Chris Mayer: He gets that. In some ways, it can be a little ... You might think it might be a little intimidating picking stocks for him. The way he is about it, he's really very patient, a long term investor. I remember telling him one point late last year that with the Bonner portfolio, private portfolio was outperforming the [SC 00:22:52] 500, and he really didn't care. I kind of knew he wouldn't but I just wanted to tell him anyway. He said, "Well, we'll see what it looks like five years from now" or the ideas have more money than he has now. He guessed it. There's these big cycles and he guessed that jus because you're up one year or even two years doesn't necessarily

mean you've run the race. It's a long, long term game.

Frank Curzio: You're looking at businesses long term, five, ten years, where they're gonna be, there's so many amazing factors, whether it's cash flow, generating income, raising a dividend annual, so many other factors that can be placed in that. What are some of the things you look at, because one stock that you've come up with, which you've recommended already to your subscribers is interactive brokers? I didn't know too much about that. Obviously I know the company, I'm familiar with the company. I didn't know too much about the financials, I didn't know that how there basically, publicly traded company, not as long as everybody else, but it's a lot smaller than everybody else, I didn't realize that, and when I read your report and I saw the fundamentals and everything, it kind of interests me.

Talk about maybe how the methodology you used to come up with a company like that, because not only is it a good value and it's cheap, it's grown incredibly fast than everyone else in the industry.

Chris Mayer: Yeah. This is one of the things we spend a lot of time looking at, too. We're not just looking to buy something that we think is undervalued or that's cheap, but we want to own it. We want to own a good asset. If there's something I've learned over 20 plus years now being in markets is that you're generally better off buying best assets, or at least good assets. Interesting about your own especially buying real estate and things, it's always the best real estate that appreciates and holds its value. The junkie stuff you can obviously make good returns on over periods of time, but the price assets are price assets for a reason.

We spend a lot of time thinking about the quality of the businesses we're getting involved in and we like to buy them sometimes when there's some sort of transition going on that maybe the market's overlooking, because the market does have a tendency to overweight things in the near term. If a company's gonna put up a bad quarter or two or three, that factor weighs down pretty heavily in the market valuation. If you look out a year or two, you can get good bargains just that simple way.

One stop we've come up with. To answer your question a little more directly, we do look at things that are falling out of favor for whatever reason. Reachmont was one company that we picked up last year right around this time and this is a luxury goods company that makes Swiss watches and jewelry, very high, high end stuff and it was really at a favor last year and has been for a few years because the Chinese aren't buying as much luxury goods they

did and Swiss watch sales were way off. Then there's some big, existential threat from smart watches.

You had a chance to reach my valuations that we haven't seen in a long, long time. When we were buying that amidst the drum beat of bad news, and one year later, that stock is up 22% or so, maybe more with dividends. It's been a very good performer. What we do there was just we followed that code. We looked. We had a good business here. We had the owner operator, we had great balance with lots of excess cash, and we still had that good underlying business, so if you were able to look out and say, "I'm gonna own this thing after several year's time, it's gonna have good years and bad" you got a shot at getting a good business sheet. A lot of our stuff is like that.

With interactive brokers, that was one that I've known about for a long time. I had recommended it in a previous letter of mine. It was around 27 or so. It raced up to I think it was 44 or $45 and it's come all the way back. Why has it come back? Well, it's a broker, so there's volatility as you know not too long ago hit really ridiculous lows and brokers make less money when there's less volatility, there's less trading. That was one reason. There's some currency issues that effect it. For whatever reason, the market sold it back off down here 33 or 34, which I think is a nice entry point.

As you mentioned, yes. This is still, if you look past this temporary issue that they're gonna have a probably soft quarter coming up, which the market seems to have discounted already, but who knows? It may fall a little further. You look past that temporary short term concern, you can say yourself, well, long term this business is still a fantastic business and the business that has grown all this time, there's certain elements there behind it that have not changed. It's still the lowest cost broker among the US brokers, it's still growing accounts at a very healthy clip year over year, quarter over a quarter. That's the kind of thing we look for.

Out of favor industries or out of favor companies, or where there's some sort of transition where maybe the next few quarters are not gonna be particularly good, these are things that will flag our interest.

Frank Curzio: Definitely makes sense. Once again we're talking to Chris Mayer, and that was for the Bonner portfolio. We're talking large cap stocks. Guys, for all who don't know, if you want to try to get this books, it's fantastic, but Chris recently wrote a book, "100 Baggers: Stocks every turn 100 to one, and how to find them". Basically

he's teaching readers al the key characteristics of companies that return $100 for every one dollar invested. This is a newsletter that you have that's totally different. Forget what we're just talking about. This is the focus newsletter, Chris Mayer's focus newsletter. Talk about this, because we're both small cap guys when we cover this sector, and we know, when I look at small caps too, I think you have to get a little lucky to get 1,000% return, because not only does the company have to do with everything that you're looking at, even take Amazon.

You could have done great on Amazon, but what took Amazon to the next level is a total change in business model. Not total change, but their biggest cloud provider in the world, AWS. You see these businesses change and develop and even Netflix, right? Just all of a sudden it's all streaming and how they change their business model a little bit too. How do you find these companies? You have to have the ability to see into the future, where these guys are going, the management team, what's the most important point where taking stocks like this, and remember guys, this is a newsletter, the more risk you take, the more chance that you're gonna have more losers, but that's the more risk that you're gonna take. How do you identify that company that has given you that massive gain? What did you see that you didn't see in other companies that you look at a small cap world?

Chris Mayer: Yeah, well as you know, Frank, you and I both, we love the small caps. I think that when I set up focus, one of the things I wanted to do was I didn't want to get in a situation where I had to make a lot of recommendations. One of the ideas of focus is that it's a letter that's only gonna make maybe four, or five recommendations a year, but they'll be deep dive recommendations and will really get into the business and you'll understand it really well. We do background checks on management team. We do company visits, we talk to them. We go the extra mile to produce something. That format allows us to be a lot choosier, because there's just so many small caps.

It's a little trickier, because I guess you could get in easier trouble with accounting problems or with CEOs that do things or just small companies who usually have one or two business lines and you can get in trouble just because one business like goes sour where if you were the larger company that has a dozen lines of business, you don't notice it as much. I think it's more of a mind field, but the rewards are obviously greater there.

When I did that 100 bagger study, most of these, all of them, really, of these 100 bagger stocks started small. Even the largest

companies at some point, they were small. How do I identify those characteristics? I think the most important thing, and there are a bunch of things, which I wrote about in the book and which I often talk about my letter, but I think the most important thing, and this doesn't cover every kind of 100 bagger, because there's a lot of different ways to get up the mountain, but one way that I think is fairly reliable, I think it's the most important way is that the business, not only does it generate a high return on its capital.

Meaning, if you invested $100 in the business and it generates a $20 profit, that's a 20% return capital. That's pretty good. The key is, what does it do with the $20 profit? It can reinvest and again make 20%, that's kind of the fly wheel that you want to look for. If you can earn the 20% return capital again and again and again, year after year, after year, then it just becomes a math problem because a 20% return on capital is a 100 bagger after about 25 years. I'm not saying you're necessarily gonna get that 100 bagger right away, and I always tell readers we're looking for those characteristics. It might be we only ride it for four or five years. Maybe we're gonna make 100 fold, maybe we're gonna make some big number.

When we launch focus, we found it coming to check all our boxes. We had waited to launch it until we could find just the right one to start, and that company was called Tucows, TCX. We recommended it in September, and it's already doubled. Here it is March. That one had everything we wanted. It had that high return in capital. Not only do they have a high return on capital, there's a rising return on capital is actually getting better as the years go on. We had a good owner operator there. We had a great balance sheet. The owner operator is a guy who bought, buys back chunks of stock when it's cheap and he does it via Dutch Tenders, which is unusual.

For those of you who don't know what a Dutch Tender is, it's when you say the price that you're gonna go ahead and buy your shares at. It's checked all our boxes and it's done really well. That's the thing we're looking for. Those kinds of little engines that can just go for years and years and years and years. When you start using that as your filter, takes out a lot of things. We tend not to look at natural resource companies. Little junior minors, they're just not good enough businesses that would meet that criteria. We tend not to own a lot, tend not to look at BioTech, because again, they're not showing, a lot of these little BioTech companies don't show revenue and not shown profits.

Not to say that you can't make 100 baggers in those, of course you

can. There's lots of people who have made huge returns in junior minors and natural resource, but this is a different approach. This is an approach that grew out of my study of 100 baggers and really trying to identify beforehand what some of those characteristics are, because a lot of those other things are much more unpredictable. Whether a little BioTech company's drug actually gets FDA approval. There's very little way for you to know that at a time.

It's much more of a risk than taking a business like Tucows where you understand the economics. You can see the cash and how it comes in and what they charge and what it costs. You can see what their fix costs are. You can see that they're growing, you can see the margins will expand and change over time and that is much more of a higher percentage way to get those multi baggers, in my opinion.

Frank Curzio: Chris, I love having you on, because that was my next question to you. You talk about return a capital but what about when it comes to junior minors who do offer those amazing gains, if you pick the stock at the right time in the cycle. Same with BioTech, but you already addressed that. I wanted to ask you this question. YOu talk about return a capital. What may be, is that the most important factor? Is it more that hey, I'm looking at the fundamentals? Is it you're looking at the people? I know you just said the PCX, how they always tend to buy their stock cheap, check off all your boxes. Is it looking at the right sector as well where say the internet thing is supposed to grow for decades and decades as more things get connected, or you're a person that travels the world, and not only do you travel the world, you attend some of the great conferences, and you've spoken at the value investment congress Iris stone conferences.

These are some of the ones that you've attended, even spoke at where you'd know a lot of the biggest hedge fund managers and portfolio managers out there. Is that also a big factor, too, where you're in the room, you have great contact, you're traveling the world where you may be able to find ideas out that the average person wouldn't be able to find out because they're not gonna find them on screens or anything. I guess, what is the most important, how important is it also that you're traveling and you have all these contacts, when it comes to picking those stocks that could go up 100 to one?

Chris Mayer: Yeah. That's a good question. I would say, in two pieces. The first, I would say that the most important, at least at a theoretical level, is that reinvestment rate. There was a book called "100 to one in

the stock market" by a guy named Thomas Phelps, and that came out in 1972 and that was the inspiration behind me writing my book, "100 bagger" as sort of an update of that study through to 2014. His conclusion also was indirectly that reinvestment rate. He has different examples where he shows a company reinvesting his proceeds and growing, growing, growing, and I think a modern investor that embodies that principal a lot is a guy named Chuck Akre, A-K-R-E. Akre, capital management.

He'll talk about this. He uses an example too of just a simple example, shows you the power of compounding, which is the same idea, really. Say if you take a penny and you double it, what's it worth at the end of 30 days? It's an astounding number. It's like 10.7 million dollars. A lot of it comes on the back end, because what do you have on the second to last day? You have five million and what do you have on the third to last day? I got two and a half. It's also the case with these 100 baggers, as they reinvest. Those back end years where you really start to have this exponential explosion.

It requires some patients. Companies that don't have that great reinvestment rate, what happens is that they have to find other things to do with their money. Unless they're smart about it and you get a really good owner operator who buys back stock, you're gonna have some sort of leak. You might have a dividend, and dividends fine, and dividends I say, actually I quote Phelps in my book and say, "Dividends are an expensive luxury, if you're shooting for multi baggers". There's nothing wrong with dividends, of course, but it's kind of a leak. It's something that's not gonna go ... If you're gonna get 100 bagger, you need someone to fully invest all that money and earn that high return again and again and again if you have money going out the door at three, 4% dividends, that's capital.

A business cannot reinvest. There are other leaks too, as you know. Companies buy other companies. They blow a lot of money that way. That doesn't work. The second way I'd answer your question is you mentioned the travel and net working. Absolutely, that's critical for me, because okay, let's just say you grasp all this stuff in theory. Now you got to find it. There are thousands and thousands and thousands of stocks out there. A lot of their stuff, you can't necessarily screen for. I guess you can screen for return on investment capitol and such, but those kind of things tend to be pretty well telegraphed.

Ideally, you want something that's a little more hidden where maybe it's about to emerge, or maybe there's some other division

that's gonna be sold. That would be ideal, but some of this stuff is hard to screen. Hard to screen for a good owner operator who buys back stock. There's a lot of effort in that. It's possible, but for me, the travel is my way of, and the networking is a way of having all these extra bird dogs out there and actually Tucows did come from another investor that we knew. A special investor, one of the hedge fund. That was a good tip off for that idea.

I go to conferences, like you said. I meet with a lot of these people. Just talk to them routinely. Sometimes we've done travel trips together when we're looking at companies or we visit foreign countries. You just get more eyeballs out there. If I know a dozen other hedge fund guys and we're all looking for ideas and their philosophy matches up with mine, well, we can all help each other out and say, "Hey, have you looked at this one or hey, have you looked at that idea?" Makes the process, lets you cover a lot more names.

Frank Curzio: That definitely makes sense. I want to go back, not to jump back and forth here to the Bonner portfolio, but ideas with what we're talking about right now. Traveling and stuff like that going to conferences where I think I read in your last issue that, I'm not too sure if you traveled to India or talked about the country if they're hearing a fund manager speak at Grants Conference, that might have been it, but I saw that write up where you're calling it Reagan 2.0, and I just found it incredibly interesting. Can you tell everyone about it? Again, when I was reading it, I actually read the whole two page write up on that stuff, which is a small part of your newsletter, but it's very interesting.

Chris Mayer: Yeah. I have been to India a couple different times. On this occasion, I was a Grants Spring Investment Conference, which was ironically named because that was the week where we had the blizzard that never came. There was a money manager named James Litinsky and he presented. He said, his presentation was Reagan 2.0? He stared by addressing it to the US market, with Trump, is it setting up another Reagan-esque type run? He concluded no, but then he said that the more interesting part of the presentation, when he said, "Well, it is Reagan 2.0 in India". He compared Modi and Reagan and different policies and what happened.

Modi is the new Prime Minister of India. I think he was two years now, or close to it. Part of his platform was reducing taxes and cleaning up the bureaucracy and lowering regulations. There are

a number of other similarities. There was one who's just an eerie chart, not that necessarily seals the deal or means anything, but it's really an interesting coincidence where he had plotted the US stock market when Reagan was elected and you could see that it bottomed something like 646 days later or whatever it was, and then took off from there. Then he showed the chart with Modi and it was the same thing.

Two years after Modi became prime minister of the market seems to have bought him and has since rallied off that bottom. There are a lot of other interesting similarities. One of them has to do with interest rates coming down. That's happening, too, in India. One of the, I guess you could say, benefits of Modi's policy of getting people onto the banking system using the banking system is that Indian banks have rising deposit levels and it's really driving down interest rates. A lot of interesting things like that made me think that I think India is a very interesting, I don't know if merging market is the right word, but a very interesting foreign market to look at and invest in. It's still very difficult to buy many Indian stocks, but there are some smart ways to get involved in it.

One of the ways I like actually Litinsky didn't mention this one, but I like it is Fairfax India holdings, which is run by Prem Watsa. Prem Watsa is a guy who runs Fairfax Financial, which has been a very successful Berkshire Hathaway like company and he created this vehicle called Fairfax India. I guess he created it in 2015. He raised maybe it was a billion dollars or whatever it was and I think he's raised a little more since to invest in India. He's accumulated an interesting portfolio of assets, including a percentage stake in Bangalore Airport, and interesting infrastructure assets like that.

I think that's a pretty good vehicle to participate in what should be a growing macro story that turns more favorable to investors over time.

Frank Curzio: Yeah. I was actually laughing before because you said Spring Editor's Conference. I know you had pictures of the snow and it was supposed to be a lot worse, but I think it was four or five inches, and there was no one streets at all. Saw the picture of it, but it was amazing. That's why I wanted to bring this up because the charts in the Regan election to the Modi election and they show 646 days to market bottom. The market bottom and then took off during Reagan, and then it shows the shot next to it is Modi elections, it's 650 days a market. It's almost identical. It was pretty cool to put that up. It's kind of like, wow. Definitely caught my attention.

Chris Mayer: I thought so. I thought it was pretty cool. I'm usually poo pooing those kind of coincidences.

Frank Curzio: Me too, me too.

Chris Mayer: This one was kind of cool, so I had to share it.

Frank Curzio: Definitely. Last thing here, because I know you have to run. Usually share ideas with us and you shared a lot of ideas, at least four or five I think, and probably all off the radar ideas, which you always do. You always share ideas where most of my listeners haven't heard. Sometimes you're looking at me and I'm like, "Wow, I've never even heard of this company." Is there anything you look at without giving away anything in your newsletter, even on the small capital, maybe even within the large capital or mid cap range that you're keeping an eye on or that you invested and are ready, you still think has huge upside potential. Just a couple names, maybe.

Again, I'm putting you on the spot here for the listeners.

Chris Mayer: Yeah. One of the things that strikes me about let's say the Bonner portfolio is how international it's become. It wasn't necessarily that I set out to do that, but just by focusing on the same bottoms up companies by company type analysis that we've talked about so far that we've accumulated a portfolio. We've got a stock that's listed in Canada, one that's listed in France, one that's listed in the UK, one in Japan, one in Switzerland, and these all have USA DR's so they're not difficult to buy, but it still strikes me that such a large portion of the portfolio is in Europe or these other markets.

We still are looking at a number of European companies. One that we like a lot, we bought again recently is Vivendi, which is a French media company controlled by a guy named Vincent Bollore. Bollore owns I think he might be up to 20% of it now. He's been buying it in the market, open market, which is really unusual and good to see. A lot of people never heard of Vincent Bollore and he is a real value creator over there in Europe. Some people call him the Carl Icon of Europe. He goes on, he takes on companies, he challenges boards, he fires people. It's unheard of in France.

He's got a great track record. In Vivendi, he's got a company that he's been working on transforming here for a few years. Now it's got lots of cash, net cash and it's got a lot of interesting pieces. One of the pieces he owns in that is universal music group. You know how all these music streaming services are very popular now. Spotify or Pandora or Apple Music. They're growing leaps and bounds. There's over 100 million something subscribers worldwide

on these things. Where do they get all the music?

Well, they get their music mostly from three big studios that own 80% of the music. Sony, Warner Music Group, and Universal and it's a really good business. When you look at Universal, whenever they get something like a fraction of a penny, every time someone listens to a certain song, you stream a certain song and it's in their studio. That business has grown in a week. Eventually, I think Universal Music Group could be worth more than Vivendi is worth, just itself. Vivendi of course owns other assets. They have Canal and Canal Plus. These are French studios and media companies. They have a grab bag of other assets. That's something that I think is really interesting just to give you one name and also give you the flavor of how we're looking in Europe for these kinds of valuing opportunities.

They're a little below the radar.

Frank Curzio: That's cool, I appreciate that. Just a little history behind Vivendi where they were able to get those assets. Interesting, Chris. You probably know this. I don't know if you know, but I've just done a lot of research on it where Samuel Bronsmith, in the late 1800s, buying hotels, look at distributors in Canada built this massive empires, which was Seagrams. He bought Seagrams and stuff like that. They try to take over Conoco at one point in the 80s. It's a name that people don't talk about but then they got into a lot of trouble and they sold a lot of those assets to Vivendi, which was universal, but it's pretty interesting how that was something I was researching just two weeks ago and then Vivendi crossed my mind. I'm like, wow I wonder how they're doing.

I just looked at it now that you said that, and I can't believe the mark cap, but I think it was 24 billion. Is that correct? I thought it was-

Chris Mayer: Yeah.

Frank Curzio: -Gonna be much, much bigger than that because they've been around such a long time. I'm now familiar with a lot of their assets from doing the research, but that is an amazing pick. I think that's a solid pick that again, that has a longterm potential that fits the nature of your newsletter. Chris, listen, thanks so much for coming on, man. I know, usually I try to keep these things to 20 minutes, every time I get you on, though, you're on usually 30, 35 minutes I think, right? Is that too long for you, bud?

Chris Mayer: That's not too much.

Frank Curzio: Listen, I really appreciate you coming on, I do, and I know listeners love you always give out great ideas. Hopefully you join us again soon and safe travels on your trip. Where you going again? You're leaving tomorrow I think?

Chris Mayer: Yeah, I'm leaving tomorrow for Toronto. I'm gonna go to the Fairfax annual meeting this week and then from Toronto, I'm going on to Mexico, poke around down there. Yeah, I've got about a ten day swing here coming up and should have some interesting things to tell my readers when I get back.

Frank Curzio: Awesome stuff, awesome stuff. Chris, thanks so much, and really quick, if they want to get a hold of you, if they want to learn more about you, how could they do that?

Chris Mayer: I think probably the best way is to go to bonnerandpartners.com and you can find both my letters there on our private portfolio, and the focus letter we talked about.

Frank Curzio: Okay, perfect we'll leave it there, and Chris, thanks again so much for joining us and hopefully you come back soon, man.

Chris Mayer: Hey, Frank, I'm always happy to be on with you. It's always a lot of fun. Ask good questions, get me going here. I enjoy it, so thanks.

Frank Curzio: Thanks man, safe travels, talk soon. All right guys, great stuff from Chris. That's the beauty about this podcast. Frank, thank you so much for the free podcast, you do so much, but I also get to interview an amazing person every single week and next month, I'm gonna call Chris and say, "Hey, what'd you see in Mexico? What's going on?" I do the same with a lot of my guests. Travel, they have new ideas. One hand washes the other. If I'm going to the [Permian 00:51:09], I'm doing research on a specific subject and I'm reading someone else's newsletter, I'll send them my newsletter. Say, "Hey, man listen, this company looks really cool" or "I've been here, my contacts are saying this" and just, "If you want more information, give me a shout" or "I'm attending a conference and something I read that is conflicting or maybe someone else billionaire hedge fund manager shares the same opinion."

It's all a huge network, which is pretty amazing. That's how we find new ideas all the time. I have this amazing network. So many people say, "Why do you do this podcast for free?" It's so cool, thank you so much, it's a big help to me as well. Not only that, I have you and most of you are professionals in something. You're emailing me like crazy. If you're in a field, you're doing something in the oil industry, whatever. I have CEOs from major companies.

Analysts, bond managers, guys that own small companies that know something I'll be talking about, whether it's a certain trend and next thing I know this is a person that operates a company within this trend and give me great feedback and great contacts and stuff.

Again, it's all about the network, who you know, that's how you come up with the best ideas. You could always, anyone can analyze balance sheet, income statement. Again, those numbers are there for everyone to see. There's no surprise there. A lot of times those new ideas, especially in a small capital, like Chris was talking about, you find by your connections. Really cool and I'll give you guys an update when I hear back from Chris. He's gonna have an interesting trip to Mexico. Again, he's someone who travels the world, love his work, we do a lot of similar things, and hopefully you enjoyed that interview.

Again, guys, I always say this podcast is about you, not about me, I love Chris, I love having him on, but let me know what you thought of that interview. You can by emailing me at Frank@ Curzioresearch.com, that's Frank@Curzioresearch.com.

Let's move onto my educational segment. You're looking at the period, probably from around 2010, 2011 through 2012, 2013 around there, there's a huge list of companies out of China and we're all trading on them on the NASDAQ, American stock exchange, publicly traded. If you analyze these companies, a lot of them had great fundamentals, huge growth prospects, anything within China is gonna grow tremendously. You just look like fantastic companies, cheap companies, and the only thing I was wrong with a lot of them most of the manage teams were lying through their teeth about the financials. As many of these companies turn out to be fraudulent.

What did the SCC do? They suspended a trading of a lot of these companies that reversed merge. Created huge controversy, and since then, if you're talking about reverse mergers, people are like, "Oh, you're reverse merger forget it. Stay away from it. It's probably fraudulent, terrible company". I get that, it makes sense. It's like telling someone to buy stocks in 2010 after the credit crisis. Nobody wanted to buy stocks. Turned out to be the best opportunity.

Now companies, even Chinese companies that became public via IPO, which is normal system or they hire bankers like Goldman Shack, JP Morgans, got all these investors involved. They had lock up periods. That's okay. That's cool. It's an IPO. There's also

a lot of these companies that bought Shell companies. These are companies that were publicly traded already. Really didn't have a business model. It was called whatever and whatever company, then they merged and they do reverse splitting stuff like that and they begin trading immediately as a public entity. They'll change the name of the company and a bank. Next thing you know, you could buy shares.

They used reverse mergers to go public and that's a way to avoid a lot of the SCC checkpoints, all the checkpoints taken by investment firms like the Goldman Sacks and JP Morgans when they go through your financials and audits and stuff like that, so they're able to avoid some of that stuff that when companies come public via IPO. Now, if you look at reverse mergers today, they're like United Airlines. Everybody hates them. It's the worst thing, don't even go near them. Reverse mergers are widely, again, widely misunderstood.

I'm gonna tell you something, it's a great way to generate huge returns if you know what reverse mergers to invest in, that's the key. I got to tell you something, because we all know about the China reverse merger thing. China ruined it for everyone, so some of these companies turned out to be fraudulent but I'm gonna tell you something which you probably didn't know. Berkshire Hathaway was created by a reverse merge. So was Waste Management, Texas Instruments, Jamba Juice, Burger King, Oxydo Petroleum, I can keep going on and on. There's a lot of great companies that use reverse merger to become public.

Why am I mentioning this? Because in future issues of Curzio Venture opportunities, you're gonna see me recommend a few reverse mergers. Don't panic. There's two in particular that are great companies. They're not going the IPO route. Why? Because it's cheaper and much easier to go public by reverse merger than the higher investments firms and what is the investment firms do? They're probably gonna talk you out of going public at first, because they can get an even bigger pay day if you stay private and they're gonna market you, you'll get investors in your private company. We're seeing it like crazy and then what happens is when they have multi billion dollar valuations like the Alibaba's, the Ubers, the Snapchats, right?

That's when the become public. The investment firms make a fortune, and you as an investor make nothing, because these companies are going public after probably 85%, 90% of their growth already took place. How much is Uber going to grow from now at, what is it, 68, 70 billion dollar valuation. Wouldn't

you rather an IPO earlier? This way you could get it as individual investor? No.

You're probably gonna IPO it, whatever. 80 billion dollar valuation. Alibaba is a great example of this. What is it, 88, 90 it came out. A couple months later went to 117 or something. Where is it trading? It's trading at 114 today, two three years later, which is meaningless for individual investors. They go public at these inflated valuation, make an investment firms ton of money while you as an individual investor have to buy Snapchat at this crazy valuation, which is insane, where there's a good shot it's not gonna be its growth expectations because it grew so much prior to becoming public.

There's another interesting point about reverse mergers. It's become the new way to invest in private companies. Hear me out. There's billionaires and huge investors using this method. Why? Because it takes seven years on average to get a return investment when investing in a private company. You're only gonna get paid from a private company, if the companies acquired, or if they go public. Those are the only two ways you get paid, where you could sell shares. Billionaires and big investors are like, "Why do we have wait seven years for it? Let's do something different" and they're creating Shell companies.

These are shell companies that already have a public listing. It's a company that meets only requirements for the [Nasdac 00:58:29] again, it's a Shell company. You'll see it trading. No business model, no nothing. If you're trading on [Nasdac 00:58:37] already, but what they do and their purpose is to search for a growth company, which is normally a private company, and then take them over. The company is immediately a public company once this happens.

Why is it important? Well, these billionaires and millionaires, they have great contacts. They use their expertise to hire great management teams, but more important, when they do this, do the structure, they can sell out of their position after six months or a year instead of waiting seven years. The payback period is much shorter. Look up Del Taco as a perfect example. That was a private company that was taken over by a group of investors that create a Shell company, and now Del Taco is a publicly traded company.

I know this because I've actually helped a group of investors who create a 25 million dollar Shell company. I think it was 25. Maybe up to 50 million, which had Soros other billionaires invested in and they're trying to find a good, small cap company to purchase and they came to me and said, "Frank, you're a good small cap

guy. Can you throw us some names our way that you heard about, even if they're private companies" and I did. They winded up going another route. They took over an international company.

Like I mentioned earlier in my intro, sometimes you can use the media they generate exception return, guys, by doing the opposite of what they are reporting. Everyone I know hates reverse mergers, but it's a great way for small companies to go public. Not only that, they're completely under the radar. Since they're not filing for an IPO, which is a filing, which everyone sees and sometimes these companies can offer investors exceptional gains or exceptional returns since this is as close as it gets to investing in a private company in a very early stage without any other restrictions of being an accredited investor, or having to hold shares because you're locked up over a certain period of time.

As your investor in Curzio Venture opportunities, you're gonna see at least one, likely two companies, I'm sure 99.9% of investors have no idea it even exists because they're coming public, the reverse merger, it'll be in my portfolio in the months ahead. They're not Chinese companies. Just using that reverse merger structure to save costs and the headaches of IPO, and again, you have to do the research on some of these because some companies will use reverse mergers, and again, to avoid a lot of the SCC restrictions and stuff like that.

You really have to have good contacts, know the right people to find out which ones are good and which ones aren't. Once the word gets out of these two companies since these companies have exceptional management teams, the only reason why I know these two companies exist is because of my network. I think both names are going to take off. Again, you can't find these companies. They're off the radar. They're not registering in IPO. You don't even know they exist because it's under another name right now. Once they merge, then they're gonna have that new name. They're gonna change the name and that's gonna be their business.

You have to be careful which reverse mergers you invest in. Again, I just gave you a list of names who came public. Berkshire Hathaway came public in reverse merger. China ruined it for everybody. They ruined it for everybody. All those fraudulent companies. The SCC's suspending trade in a reverse merger, but don't ever touch reverse mergers! That's not true. A lot of good names, especially, is gonna give you the chance to invest in very, very early stage companies at the absolutely bottom or near the absolutely bottom. Instead of investing in Snapchat on it's IPO when you're like, "Wow, I'm investing in an IPO early", you're not

early to Snapchat. You're late. All the growth is gone. Alibaba, growth is gone.

These are companies that are just starting out. Is there risk? Absolutely. It's like, buy Microsoft, split adjusted at two bucks compared to 20, $25. Riding 100, 200% gains, you're talking about generating thousands of percent gains, because you're in so early. You don't have to be an accredited investor to do it because it's a publicly traded company, just most people don't know about them because they're not filing via IPO. You can see a lot of these companies, not a lot, but at least one, probably two show up my newsletter going forward, but I'm recovering reverse mergers, there's two companies I know about that have exceptional management teams where people on the board of directors, were ex CEOs of major, major media companies.

The other ones brought a bunch of [mining 01:03:04] companies to public sold them and generate billions of dollars. Now he's starting new companies, using a reverse merger structure. Everyone reverse mergers are terrible, we covered on which ones are good in my newsletter going forward, but guys, pay attention to reverse mergers. Start doing research. Again, it's hard to find these companies. You're not gonna find them through screens, but if you do your homework, your Google searches, you find out that some blogs, I talk about them, you'll see a lot of these things coming to market. You can review the management teams, see their structure, see what these guys did in the past, who their investors are, you find a lot of hidden gems and it gives you an opportunity, guys, which you don't have often, to invest in a company on the ground floor.

That's why it's important, because the gains could be exceptional if everything turns out as planned. Again, don't hate reverse mergers. You got to be skeptical of them, but there's a lot, not a lot, but a few of them that can offer you really, really great returns if you know where to look.

Okay guys, that's it for me. I want to thank everyone again for signing up. Encourage your research advisory, that was last week. Advantage of that offer. Hope you enjoy the newsletter so far. Got a lot of alerts coming, great research coming, so be prepared. Just want to say thanks again, especially to those of you who subscribed to be life time members. That's really, really awesome. Really great stuff. Guys, that's it for me. Thank you so much for listening, and I'll see you in seven days, take care.