WALL STREET UNPLUGGED

AUDIO TRANSCRIPT

Frank Curzio: 'Wall Street Unplugged' looks beyond the regular headlines heard on mainstream financial media to bring you unscripted interviews and breaking commentary direct from Wall street right to you on Main Street.

What's going on out there? It's Wednesday May 24th and I'm Frank Curzio host of the 'Wall Street Unplugged' podcast where I breakdown the headlines and tell you what's really moving these markets. I usually start the podcast off with a story, sometimes it's a rant, sometimes it's about the markets, and sometimes it's personal. This one is going to get a little personal.

Last night there was a major accident that took place around 1 pm. I live in Amelia Island, Florida and you have to take a small bridge to get on the island. It's a big island, it's not like this isolated little thing some people hear. No, it's a big island. Wal-marts, and Targets, and everything are on it. Since this accident actually occurred on the bridge it basically led to a ton of traffic where we live. Even picking up the kids from school, which is just 5, 8 minutes away from the house was a little bit of a pain for my wife. It's a small town, word spreads, and all we got notice there was a big accident, there's traffic everywhere on the island, and even off the island due to this big crash.

We started eating dinner last night, it was around 6 o'clock and found out that the person driving the car were actually friends of ours and more friends with my wife and daughter. I knew them as people I always say, "Hey, how's it going? How's everything?" "Hey, it's great," "We'll see you soon," type of thing. My wife and my daughter were more close. Very, very nice people. My wife's friend works at the gym and so does her husband and they're like in their mid to late 40s just like us. Their daughter's in basically the same after school program as my daughter so my daughter, Brianna, knows her well. The husband actually had a heart attack, swerved off the road, and crashed into a tree. He passed away and the wife and daughter are in critical condition right now.

We got the news that the wife is awake, and she has several broken bones in her face, and her leg was shattered but she's not really out of the woods yet. Her daughter's still sedated with head trauma but we're hoping that that turns out to be good news as well. It was weird because we literally just saw them at a restaurant the day before. We were at a restaurant, they came in, "Hey, how's it going?" "Hey," that same restaurant, or whatever. Again, it's a small town and it's pretty crazy when you think about it and just think about life. How much we complain about the simple things like traffic, or an argument with a friend, or even politics. How passionate are we about politics right now and how much we hate the other side? You realize how little those problems actually are when you see things like this.

This family has another young daughter who, by luck, just happened to not be in the car which is really good news. Not to start out with such a terrible story but I say this to so many people especially young people, live your life. You have to live your life man because sometimes it could be really short. I have so many millennials and the millennials that email me are so responsible. They listen to the podcast, they have no debt, they're finishing college, have great jobs, they're investing at such a young age even before me and my dad. I was just terrible. My dad was in the industry for how many years? 30 years and I took for granted that I should be investing in stocks in my 20s but I just really didn't take it seriously until later on. Be sure to stop and have some fun whatever that is. If it's get drunk, smoke a joint, do what all of us did when we were younger.

Just have fun. You could be irresponsible a little bit because trust me when you do get older those are the times that you remember. Having that fun with your friends, doing irresponsible stuff those are the stories you tell as you get older and you have those great friends and stuff like that. Even if you're older do things you always wanted to do. If that's a trip to Churchill Downs to watch the Kentucky Derby, going to Europe to see relatives find a way to do it. Don't keep putting that stuff off you never know what could happen the next day, what could happen the next week. Sometimes those things just get lost and some of those things happen to be your dream. You live once, do it. No matter what costs, do it. You'll be able to pay for it, it'll be fine. Put it on a credit card, pay it off later.

For me I sleep an average of four hours a day, I'm just wired like that I can't help it but it allows me to enjoy so much of the day. I'm not going all Tim Robbins James [Alt-id-ge 00:04:49] on you here, two guys I love and I respect who are great motivators but life is really an awesome thing. It's so difficult, it's so unpredictable, and for me I love that challenge. Always try to make things work no matter how difficult the circumstances and how crazy my kids could be. Again, not to get all philosophical with you on an investment podcast but if you had a couple of big stock winners, which maybe you told me you had through emails over the past couple of years, live a little. Spoil your kid, buy him a bike, go away with friends or family, create a bucket list of everything you want to do over the next 20 years and try to do it over the next 5 no matter where it is.

If it's traveling the world or doing whatever, making up with a friend that you had an argument with 20 years ago or 10 years ago. For me, that's how I live my life. I've been to the World Cup twice, I traveled to China, I've been married twice I don't know if everybody knows that. I have two beautiful daughters, been to the Masters, watched a Kansas Jayhawk game at Allen Fieldhouse, spoke at major conferences in front of thousands and thousands of people. I was able to start my own business, met so many amazing people and smart people over my life, and interviewed great great people. It was really cool. Of course, I had some tough years with my dad passing when I was really young, a lot of my friends of past, I've seen that.

As you get the older, unfortunately, that happens. You see that more often. My wife had early stage breast cancer which we dealt that she's perfectly fine now and great. That was tough times. If I just walked out and got ran over by a truck or something and die tomorrow I could say I lived a pretty cool life. I think that's how everybody should be. Just make sure you do everything possible that's going to make you happy.

That could be finding a great partner, a job you love which I have here which is fantastic. I love what I do. Spending more time with your family or even tackling your biggest fear. Me, I'm a little bit scared of heights. Not really but I actually went skydiving which is crazy. I can't explain the feeling just trust me you'll know exactly what I'm talking about the second your feet touch the ground if that's something you want to do. When you tackle your fears like that it is amazing, that adrenaline rush is awesome. Enjoy life because it's such a precious thing we take for granted, all of us, until we see something like this, like that accident. Or something like a September 11th.

I don't know if I ever told you this story but I lived in New York at the time and I had friends who passed. I visited ground zero two days after everything happened. For some reason, where I live in Queens there was the M train that goes straight to Wall Street, that's what I used to take when I worked there. It was working but only cops and firemen were supposed to be allowed to board the train to get back and forth. I actually jumped on it and nobody said anything to me. I just wanted to see this first hand and it was one of the most terrible scenes you could possibly witness. I was standing at the base of the twin towers which was just rubble. You see everybody with masks on, it was still that cloudy ... you really couldn't see more than two blocks away. It was just quiet. It was really, again, it was unbelievable.

It was also one of the best memories I have because at that time there was no racial barriers, there was no gender barriers, there was no political barriers, everybody was one. Everybody was helping each other. You look at all the stores, it was Starbucks, everything was free. McDonald's, everything was free, anybody that walked in. People traveling across the country, bringing supplies. Firemen were working 48 hour shifts, you couldn't get them to leave because, again, just trying to find people. Cops were the same, hoping to find survivors. It was just funny how traumatic events put things in perspective for everyone sometimes. That was pretty much amazing and a story that always remember where I try to take a positive out of something that was such a negative.

This family I just saw a day ago, now the father passed away, the mother and daughter are still not out of the woods just really puts things in perspective sometimes. Just reminds me, at least, how precious life is. I have a great show for you today and I promise it's going to get more cheerful, full of ideas, also have an awesome educational segment that every single one of you, every listener should listen, at least, 10 times and keep rewinding it, keep listening, and listening, and listening. It's going to be an amazing lesson, the strategy is one that can make every one of you a millionaire. If your 90 that might be a little tough because it's a long term strategy so maybe everyone under the age of 70 to clarify. It's going to be an awesome, awesome education lesson, let me tell you. Please, if you get a chance, listen and I want you to keep listening, and listening, and listening. Going to cover a lot of material.

Before I do that I have a new guest I'm interviewing. His name is Jared Dillian. Jared works at Mauldin Economics, writes a newsletter called 'The Daily Dirtnap.' They're actually having an amazing conference there right now, that's where he's doing the interview from. Jared's not so much of a fundamentalist or a technical person but uses human behavior, almost sentiment as methodology to pick stocks and forecast the economy. It's actually very interesting what you're going to see in a minute. Jared used to work at Lehman, he was also a former ETF trader where he learned to trade macro, speculating currencies, commodities, interest rates, even equities, and options. He's going to share a few new ideas with you, talk about the general state of the economy, and explain why it's so difficult for most people to become contrarian investors which his newsletter is basically all about, contrarian investing.

It's a really great interview coming up. Also, in my educational segment, I really didn't describe it that while, let me get to it now. It's going to be about dividend aristocrats. We get a ton of questions about this all the time since I created a dividend aristocrats list of small cap names. Dividend aristocrats, guys, are stocks that have raised their dividend annually for longer than 25 years. It's like this exclusive list of stocks, great, great companies. Most of them have been around for more than 50 years even more than 75 years. What I was able to do in my past newsletter is find small cap dividend aristocrats. There are companies out there that have raised their dividend that have marked caps less than $5 billion and we'll cover a couple of those stocks today.

We're going to look at the entire industry because when I went back and recommended about 10 of those names I would say about three, four years ago, most of them did well. Maybe 2 out of 10 underperformed but the performance on those names has been amazing especially when you look from a risk adjusted standpoint. In other words, if you make 30% returns buying something like Con Ed that's viewed as a much better gain than making 100% returns on a company like Nvidia because it's a super high growth name, more risk, that runs up with every momentum. As opposed to buying a high dividend, slow growing company that will basically save your ass if the market crashes. That's how you look at it when you're invest in some of these things, not return but it's risk-adjusted return.

Anyway, in that educational segment I'm going to explain more about dividend aristocrats, I'm going to share some of my favorite dividend aristocrats with you which I think there's like 40, 45 maybe are in the S&P 500. Also share a few small names that have a history of raising their annual dividend for decades, again, which, by the way, is the definition of dividend aristocrat. More important I'm going to show you how you could buy these names through an ETF, there's about two or three ETFs, and how you could use a certain strategy with dividend aristocrats that could make you an absolute fortune if your long-term investor.

I'm going to do that and also share my number one dividend aristocrat with you and which one you should buy right now. Very, very awesome segment. Again, be sure to listen to it. I promise it's going to be an amazing lesson that every single one of my listeners, every single one of you that what will be able to use and probably make a lot of money off of if you're willing to buy these stocks and hold them long term, and compound. It's going to be an amazing segment and I'll go over all that in a minute. First, here's my interview with first-time guest Jared Dillian.

You're a first-time guest, thanks so much for coming on the podcast.

Jared Dillian: Thanks for having me.

Frank Curzio: Like I said, first-time guest and what I found fascinating when reading some of your articles is your methodology for picking stocks. Where it's not technical, it's not fundamental but more about human behavior which, you actually say, is predictable. Can you explain that because I thought that was very interesting?

Jared Dillian: I'll try to explain it. I do use charts and I do use fundamentals to a certain extent but I really focus on sentiment and psychology when picking trades. For example, if I'm on Twitter and I see one tweet about a stock then I don't pay much attention to it. If I see another tweet then it piques my interest. Then if I see three, or four, or five then I know the volume is picking up on something. Usually what happens is that when people feel a certain way about a trade they're usually wrong. It's funny, just before we started talking I was having a discussion with one of my subscribers about Malls and Mall REITS. A very popular short has been Mall REITS but the volume on this trade is picking up and I'm starting to wonder if the trade is almost over and there's actually some value in picking up some of these Mall REITS at this point. Basically, I'm a natural contrarian and I'm skeptical of everything I read and hear and that's what leads me to my trading decisions.

Frank Curzio: It's funny you say that because, with me, I've been doing this podcast for such a long time, for 10 years. In the past three months I've never gotten more questions on Bitcoin which is interesting and I know you're probably in the same boat. Being a contrarian employer and the fact that this thing has got up tremendously is this something you're like, "Well maybe we should take it easy. The mainstream, the sentiment, everyone is getting into this now, everybody's starting to know about it"? Being a contrarian investor which may be difficult here because it looks like Bitcoin continues to go higher, would it be fair to say, "Hey you know what? You got to look at Bitcoin and say maybe it's time to either take profits or sell it"?

Jared Dillian: People think I'm sort of a Bitcoin bear and I'm really not. I don't necessarily think the price is going down I just have a bias against it. I don't like it. The reason I don't like it is that I think that in order for something to have value it should be something tangible or have cash flows. When I say tangible I mean something like gold. I was reading an article yesterday about Cold War nuclear tests. The US and Russia tested a bunch of nuclear bombs during the Cold War in the 50s and 60s. They detonated these weapons in the atmosphere and they were so powerful they screwed up the Earth's magnetic fields and shut down half the satellites. If you think about the possibility for an EMP or technology to be disrupted on a massive scale it doesn't really make me bullish on Bitcoin. I like things that I can touch, or bury in my garden, or hide in my house. I think that it's good to have a tangible store value.

Having said that, the volume on Bitcoin has picked up dramatically. I saw a chart yesterday that overlaid the Bitcoin price with Google searches. Every peak has been accompanied by a massive rush in Google searches. I had my eighth grade girlfriend reach out to me on Facebook messenger and ask me if she should buy Bitcoin. This happened a couple days ago. Yeah, I think we're probably close to an intermediate top there.

Frank Curzio: You said something interesting when you said you're a contrarian investor. I hear that all the time especially from the average investor. Can you explain why most people are not contrarian investors. Being contrarian you think you're on the other side of a trade sometimes and sometimes you're not, you're actually in the crowd. If you look at contrarian investing it's like buying coal right now.

Jared Dillian: It's a matter of you're not really a contrarian investor until you put on a trade ... imagine you put on a trade that is so unpopular and then you raise your hand on Twitter, or in an article, or online and say, "I put this trade on," and you get hate mail. That is when you're contrarian when you're in a trade that makes other people angry. People, they call you stupid. That's when you get into real contrarian territory. I've been dealing with this for the last four years with Canadian real estate. I was very early in saying that real estate was overvalued and they probably had a bubble. When I first started saying that in 2013 there was nobody in that trade and I took a lot of heat. I took a lot of heat for a couple years and that's not a contrarian idea anymore, that's become more consensus.

Frank Curzio: Now, what about when the opposite happens? If you recommend something in your newsletter, which we'll get to in a second, and everybody emails you and says, "Jared that was a great pick,"? It makes you want to cover your trade right away, right?

Jared Dillian: Yeah. That makes me a little uneasy sometimes. No actually, to your point, the negative feedback is super valuable. Very, very helpful. I'm trying to think, there was something I got pretty heavy negative feedback on recently. I don't remember what it was but usually when that happens I know that I should at least do some more digging, I should do some more work on it.

Frank Curzio: No, it definitely makes sense. Talk about using human behavior or sentiment when it comes to, say, politics or major political outcomes. Like right now we're seeing a very, very, very tiny possibility of impeachment. I don't want to get into politics because you know whatever side you're on the other side's going to hate you. If this would happen it would crush Trump's pro growth premium that's in the market, it's already pricing the stocks. Is this something that you look at as well when it comes to this type of analysis?

Jared Dillian: I do. Let's put it in terms of European politics, it's probably an easier example. Back when Brexit happened it was a surprise. Some people predicted it, a lot of people didn't. Then Trump got elected and so people connected the dots and said, "You know? Right wing populism is taking over the world." That is the point in time at which I said that actually, "No, right wing populism is actually probably peaking," and this was about the time that the Freedom Party lost the election in Austria. I actually put on a pretty big bet in France saying that Fillon was going to win the election. Now, Fillon ended up not winning, Macron won but it should be pretty clear, at this point, that the point at which we reached maximum volume in noise about right wing populism was actually the point in time that it was peaking. Now, Europe the euro is in no danger of breaking apart and German elections look to be pretty straightforward.

Frank Curzio: Yeah, it definitely makes sense. I like the way you put that. The name of your newsletter is 'The Daily Dirtnap.' You describe it, what we talked about, is taking the other side of the trade, being a contrarian investor. Could you talk about that a little bit? Seeing that it's such an interesting newsletter.

Jared Dillian: The title comes from when I was on the floor of the Pequot's Options Exchange back in '99. I was a clerk and there was a bunch of ... the traders there had their own language. Whenever the market was going down they said it was taking a dirt nap so that comes from San Francisco during the dot com bubble. The newsletter, I've been doing it since 2008, it comes out every day, it's entertaining, it's go anywhere. I talk about different topics all the time. It's not just US stocks and bonds, it's go anywhere around the world. Interest rates, FX, commodities, it's really macro. No, it's super entertaining to read and it's addictive. I will say that it's addictive. People read it for a couple of days and they start to get hooked.

Frank Curzio: No, it's great stuff. Once again we're talking to Jared Dillian and I started going back and reading some of your articles. I was fascinated by your research and one of the things you wrote about is bubbles. We hear the term bubble used probably way too often these days. One of the articles you wrote about was defining what a bubble is and how to spot one. Just direct question, are stocks in a bubble today?

Jared Dillian: I'm going to say stocks are not in a bubble. There's a difference between when something is overvalued, simply overvalued and when it's in a bubble. Stocks are definitely overvalued by a lot but a bubble is characterized by an obsession or a preoccupation with an asset class. We were just talking about the dot com bubble. If you were around back then you remember people day trading at work, you remember Yahoo taxicabs in San Francisco, you remember every commercial was a dot com, and how this was going to change the world. There was a transformative technology and the Internet was going to do everything. That was a preoccupation or an obsession with the stock market. Now, nobody really cares about stocks except to the extent that they can send in a $300 check to their index fund. That actually, indexing might be a bubble but in terms of just a preoccupation with the stock market it's not happening and I don't think it's a bubble. I think it's really overvalued but not a bubble.

Frank Curzio: Talk about indexing and ETFs too because you are I want to say an expert in this, this is part of your background. Talk about ETFs, that's interesting you just said that could be in the bubble. Explain that a little bit more.

Jared Dillian: You probably saw the statistic that came out last week that there are now more indices than there are stocks. Part of that is a function of there's a lot of ETFs that have come up that have their own custom indices but part of it is a function of there's just been a decreasing number of stocks going back over the last 15 years because of Sarbanes–Oxley, or just mergers and acquisitions, and whatever. Look, indexing I spent my whole career in indexing. I was in index arbitrage trader then I traded ETFs at Lehman. I've done indexes my whole life and I basically run a newsletter that tells people how to do macro trading with indexes. You can take it too far, I think, and what we're starting to see is some distortion in the capital markets because of ... I don't want to say too much indexing but because of this prevalence of indexing. I don't want to say that it's right or wrong but when it unwinds, if indexing unwinds I think it's going to create some interesting opportunities for some people and it's going to create some headaches for others.

Frank Curzio: We read about those risks all the time and they're just making ETFs for, basically, everything now. I'd like to stay on this subject for one more question if that's okay. For so many people they do invest in ETFs, they want to take the safe route and say, "I'd rather invest in a bunch of stocks instead of just one and diversify through an ETF." What would be some of the things that you would tell them to be careful of? When I look at ETFs sometimes the allocation could be 30% to one stock. It could be based on a certain industry and you'll see sometimes that industry, just to let you know, is cyclical and goes through bear period and they'll start investing a little bit outside that industry. What are some of the things that you see in ETFs that are some of the risks that people need to worry about?

Jared Dillian: The first thing if you're trying to evaluate an ETF the first thing to do is to open it up and look at what the holdings are and get an idea of how that index is constructed. If it's not clear how it's constructed whether its equal weight, or market cap weighted, or whatever then you really should go into the prospectus and read about how that index is constructed. 99.99% of people don't do that. The reason I know to do it is because I was an ETF trader and literally the first thing I do is when I see a new ETF I go into Bloomberg and I type in XYZ equity MHD which is the code for holdings, and I look at the holdings, and I look at the weightings, and I look and see what this thing does. You do have to do your homework and nobody does their homework.

The other thing is, is that indexing is ... people think they're diversified if they're in an ETF or an index. Let me tell you, if you own the Vanguard 500 Index Fund you're not diversified. It used to be, that was the whole attraction of an index fund. You would say, "I'm just going to buy this fund then I own 500 stocks and I'm diversified." That doesn't constitute diversification anymore and in fact when you have millions of people piling into the same 500 stocks and driving up valuations you're not really diversified anymore. You're in an asset class unto its own that is in itself overvalued. If you want to be truly diversified then you have to get more creative. You have to look internationally, you have to look at different asset classes because just the top 500 US stocks don't offer you diversification.

Frank Curzio: That's a very good point there. A couple more questions here. Like I said, I started reading a lot of your articles and I thought, when I probably started reading them and really got a feel for your methodology and you, it just seemed like you're more of a realist. I mean it as a complement because we've seen so many permabears and permabulls that no matter what the market conditions are they'll never change and sometimes that could be really damaging to the people that are listening to those guys.

It seems like you always draw your own conclusions based on the data, based on the methodology you use. One article that you wrote, I think, it was called 'Bull Market Dude.' Can you tell that story and also tell us why ... sometimes analysts like you and I have to check our ego at the door sometimes when we shouldn't be fighting the tape because that stock's going particularly higher and you want to be bearish on it but sometimes you just got to step back and say, "Hey, let this play out and maybe I'll get a better chance." Can you explain that? I thought that article was really, really good.

Jared Dillian: First I want to say that in the financial media or newsletter business the optimal strategy is actually to be a permabear or permabull. Pretend I'm a permabear and I'm bearish on stocks all the time. Some people like reading bearish stuff. They just like to read it and you develop a pretty strong following. What happens is when a guy like that changes his mind and becomes bullish he loses his following. This has happened before. This was publicized when David Rosenberg publicly went from bearish to bullish, I want to say, in like 2011, or 12, or something like that. He lost subscriptions. Actually from my personal P&L standpoint it's better business for me to be a permabear but I think it's intellectually dishonest to do so. You said I'm a realist, the most intellectually freeing thing I could possibly do is to change my mind about something and I do it often.

In terms of the article you referenced, 'The Bull Market Dude,' this is going back to 2006 during the housing bubble. I remember sitting at my desk and the market was going up every day and I was writing market commentary, I was writing Bloomberg notes to my clients. I would just bitch about the market all the time. One day this guy writes back to me, just writes three words, he says, “Bull market, dude.” It just really spoke to me because here was this guy basically in three words he was saying stop fighting it, stop being a putz. The market’s going up, there’s nothing you can do about it. The goal in trading isn’t to be right and that’s where a lot of people get confused. They think they have to be right. The goal is to make money. If you can make money in a trade that you don’t believe and I think that’s like level 29 of the trading video game. Is when you can not like a trade but actually hold your nose, buy it, and still make money.

Frank Curzio: No, that definitely makes sense. I guess, I will go with one more question here. Where do you see, because we talk a lot about your methodology and different stories but, where do you see right now the market heading through 2017? You did say that stocks are little bit expensive but they’re not in a bubble which means maybe you think they can go higher, or lower, or whatever. Maybe you could you share an idea or two which I know my listeners love, even a sector that you like right now. Could be a trade, even a long-term holding, contrarian pick but something that obviously you’re not giving away that your subscribers are paying for.

Jared Dillian: In terms of the overall market I don’t have a strong opinion on direction but I will say that tail risk is elevated and protection against the tails is very under priced. To protect yourself from a crash of some sort, a geopolitical event is very cheap and people should take advantage of that. I suspect that not only are people not taking advantage of it they’re doing the opposite. They’re actually selling options, they’re selling puts. Really I haven’t expressed a strong directional opinion in the newsletter for months but at every opportunity I say protect yourself, get your tail risk in because, look the initial assessment of Trump last year, way before the election, was that the market would be more volatile if he was president. The exact opposite has happened, the market has become less volatile. A lot of that is because of certain strategies that suppress volatility. We still have Donald Trump as president and he’s willing to do things that Obama would not. The risk, that that tail risk is higher so it pays to protect yourself.

In terms of a sector that I like, the Trump trade has unwound quite a bit over the last couple weeks or months to the point where a lot of this stuff is back to where it was before the election. I still like financials. If I look at banks, and I say, regardless of who is president whether it’s Trump, or Pence, or somebody else we have a Republican administration for the next four years. For the next two years we have a Republican Congress. It’s highly likely that we're going to get some kind of regulatory reform through that's going to be beneficial to the banks. The market went to fully pricing that in and is now not pricing it in at all and I still like financials for the long-term. That's really the one sector in the US that I like. Everything else that I like is international.

Frank Curzio: No, it definitely makes sense. Last thing here, if someone wants to find out more information about you and your newsletter how could they do that?

Jared Dillian: 'The Daily Dirtnap' is www.dailydirtnap.com. You can go to the nav bar on the left, there's a subscribe button, you hit the subscribe button, an email pops up, and that email goes directly to me. If you want to ask me questions about the subscription, how it works just go to the website dailydirtnap.com and reach out.

Frank Curzio: That's great. Jared, listen I really appreciate you coming on. I know you are at this strategic investment conference, I believe, and that's in Orlando for Mauldin and a very big conference. You took time out to really come on the podcast and I know my listeners are really going to appreciate it. I just want to say thanks bud.

Jared Dillian: No, thank you. Thanks for having me on. It's a pleasure for sure.

Frank Curzio: Sounds great. We'll talk soon.

Jared Dillian: Thank you.

Frank Curzio: Okay guys, great stuff from Jared. Let me know what you thought about that interview frank@curzioresearch.com. It's frank@curzioresearch.com. I liked it. I thought it was really cool. I always like a guest that talks about how you should try to protect yourself. We don't hear that enough. Sure, the market can go up but you never get hurt by protecting yourself whether it's taking profits or just whatever. If it's options or buying inverse ETFs. That level of protection I like it because, like he said, in the newsletter business what we do it's so easy to be a permabear, or permabull and people love that. It's like a religion.

Someone asked me an interesting question the other day. We were talking about Trump and impeachment and I said, "Nah, I don't think it's going to happen," and this, and that. I just didn't get the whole Comey thing. It was a really cool conversation and he said, "What would it take for you to not like Donald Trump? Or to really say, 'Okay, enough with this guy'?" It made me think for a minute and it's funny if everyone took that perspective. You realize that you're such a diehard on a certain strategy and people love that especially in the newsletter business. It's like Jared said if you hate the world and you say, "Buy gold. I could just give you 30 terrible stories. It took my debt and subprime auto," and things that really don't matter right now. Where I know the markets going to go higher and higher and I've been saying that for how many years? You can say so many statistics on either way and it almost becomes a religion where you can't change a person's mind no matter what. Especially if it's politics, if it's religion.

I don't want you to get that way in the newsletter business. This is very, very important because that's different. If you want to say you're a diehard Democrat, you're a diehard Republican find that's cool but when it comes to stocks it's your money, it's your family. It's making your family better, trying to provide a better life, trying to retire early and spend those great years that you ponder which is so important. When you're listening to the wrong guys ... that's when I get really pissed off, I guess, when I listen to the Peter Schiff's. It's not personal but when I just see someone like that whose wealthy and the advice you're giving, everybody got killed. It bothers me. I don't care if you go down with that sinking ship, that's fine we're all wrong sometimes. When you have that, "I don't care there's inflation in the market and we're going to crash 50%," and the market goes up. "We're going to crash 50%."

Please, if I could give you the best advice don't follow that advice where you listen to permabulls or permabears because the markets change, methodology changes. You have to adapt and learn different styles of investing. For me, I'm in a perfect place where I interview great people and most of them have different methodologies, different investment strategies that I learn from that you could use in different market times. If you're a resource guy and you just love resources it's a cyclical industry so when it's terrible it's terrible. Here you are, you own 30 resource stocks and you're getting destroyed, and the rest of, I won't say the world but, the US is on fire.

Technology is on fire right now and I'm sure it's going to happen with international where we're seeing so many different economies develop, and emerging markets really start coming back right now, and offering some really good returns, and still provide value. If you can, I love the fact Jared put it that way where it's easy for us as newsletter guys to really have that strategy, and that storytelling, and trashing at all that permabull market, and , "It's going 40,000 and stuff like that," but you have to be very, very careful because you could lose a lot of money if you have one particular strategy. You know as well as I do, the markets usually don't go straight up in a line. They have in the past eight years, seven years, we have some minor corrections on the way but you have to be very, very careful. You have to be smart, you have to protect yourself.

I love the fact when a newsletter writer comes on and says that because sometimes you don't have a lot of those guys. They just believe in a strategy and that's it and you got to believe in it too. Be very, very careful you're listening to and make sure they're adapting with the times. I learned that in 2010, just a quick story here, when David Tepper, it was 2010 I believe, came on and I'll never forget the interview. He said, the market look like crap at the time and I was worried. I was like, "Wow this market is going to come down. It just came back off it's lows of 666." He was like, "With the amount of money that the government's putting in the system," he's like, "You know what's going to go up? Everything, everything is going to go higher. Buy anything right now." I'm like, "Wow."

They basically just put it underneath the market and provided a floor and said, "We're going to pour money into this until we do everything we can to inflate the markets and that's going to be great for other industries." It allowed me to listen to other people and change. I made a lot of my listeners a ton of money by being bullish during those times when the government was just a ton of money coming into the system while you have a lot of people, "Destroying the value of the dollar. This is terrible. Look what they're doing. You got to avoid stocks." You could see how you could spin anything and tailor it to your beliefs but in the end you want to try to be right. When you just sit back and you take out all the noise around you you could see that stocks are going a lot higher in 2010 with what the government was doing and just backstopping everything. Giving people checks to buy houses and cars. Come on man, if that's not the writing on the wall.

Again, I didn't want to go too far on that and I really like that interview. Let me know what you thought at frank@curzioresearch.com. Now, that's get to my educational segment. It's on dividend aristocrats. Quick story, this is 1957 Dr. Carol Angle made the greatest decision in her life. I would say it's a pretty good decision when you listen to the story. She was just a young pediatrician and she heard from a few of her doctor friends that hey, you got to listen to this whiz kid instructor. He's awesome. He's looking for people to invest in his partnership.

She was young at the time but she was curious so she said, "You know what? Let me sign up for this class." I think there was like 20 people that showed up that day. I'll give it away right now because it was a small college in Omaha, Nebraska. I think Warren Buffet with 27 years old at the time and she took her husband and they were blown away. She actually says this, this is a cool story if you want to look it up, that he brainwashed us to truly believe in our hearts in the miracle of compound interest. They were so impressed they invested $30,000 at the time with the young man, who I guess you know who that is, it was like half of their life savings at the time which is pretty crazy. Today, that investment is worth more than $300 million so more than 1 million percent returns in 60 years.

I'm not going to tell you to buy stock and hold it for 60 years especially since I'm probably only going to be alive for about 15. If you haven't figured it out, the whiz kid was Warren Buffett one of the most successful investors in history. His partnership was Berkshire Hathaway and the Angles basically amassed their fortune thanks to the extraordinary system or wealth building of compounding, one of the greatest investment strategies. You listen to compounding all the time. Everybody talks about how great it is. It's awesome but if you look at compounding it's basically reinvesting the money you make from initial investment to make even more money. You're reinvesting it, you're compounding, you're adding your dividends. If you do this over long. You could earn unbelievable profit from your initial investment but you have to do it for a long time.

Compounding is just part of the story because the other part is finding the right stocks. If you compound companies, say, Research in Motion amazing, amazing company. They invented the smart phone. AOL, the Internet, online but they just couldn't follow through and there's companies that came in who are a lot better than them. You're not going to have much effort if you pick the wrong stocks or, say, if you pick companies that pay a dividend for three, four, five years and then they get so aggressive and sell leverage, and it's a cyclical industry, they're in bad times, or whatever, it's an oil company. They have to suspend that dividend, you'll see the stock come down. You want to try to pick the right stocks, a stock that you're going to hold for 30 or 40 years. That's how you want to look at it.

How do you pick those stocks? There's a long list of elite dividend paying companies that the greatest investors use to compound their investment returns for decades. That is basically called the dividend aristocrats. Now, if you look at dividend aristocrats just punch it in Google there's so many different sites. Basically, it's companies that have been raising or increasing their annual dividend for 25 years or longer, increasing it. It's a pretty exclusive list. The number one stock on that list is amazing. I'd be surprised if somebody got it without looking. I'll give it to you but it is pretty interesting. It's American States Water. Nobody would've got that unless you know. Unless you know you wouldn't of got it. I never would've got it.

Anyway, for 62 years they paid at 2% yield and every single years for 62 years … this company has obviously been in business for two years, probably a lot longer. Northwest Natural Gas another one on this list, Dover, Procter & Gamble these are all 60+ years. Then you look down the list you have 3M, Coca-Cola, Lowe's. Then you have companies like Lancaster Colony, Clarcor, you have Tootsie Roll, you have ABM Industries, SJW Corp, California Water Services, Black Hills Corp. Companies that I'm sure most of the audience are like, "Wait a minute those are really companies that raised their dividend annually for over 25 years? I've never heard of that company. They've been in business for 25, 30, 40 years?" The companies I just mentioned have all raised their dividend, they have dividend streaks of 47 years or longer increasing their dividend.

What you want to do is analyze a lot of these stocks. Some of the ones that I picked were Universal Corp., Leggett & Platt which did very well, RPM. Again, these are companies that are still in the list. What else? Diebold was the number one company on this list. They made a major acquisition, the stock took off. This was like four years ago when I recommended it, it was a great company. Then basically they tried to take over a company, I think they ranked number two, and they tried to take over number three to become the biggest ATM provider in digital and stuff like that, and it was really tough, and they didn't get approval. Their stock really came down but because of their stock coming down they actually stopped increasing their dividend and I think it was for, I want to say, like 63, 64 years they were number one on this list. They're no longer on this list.

When you look at companies on this list everybody wants dividends so these stocks have gone up tremendously. You want to be careful which ones to buy and, again, you want to buy at the right time where you don't want to buy, say, whatever. If it's Procter & Gamble, and I haven't looked at it in a while, but trading at 20 times plus forward earnings where the company historically is trading at 16, 17 times earnings you might not get those huge returns that are expected. When you look at returns and you plug this stuff into compound calculators, that's another thing you can look up on Google is you put 'compound calculators', and put $1000 or even a $10,000 investment, and say you're going to generate 10% annually over time. You might say 10% annually? I hear 3% would be amazing but that's insane."

Dating back to the inception of the S&P 500, and I think it was before 500 companies but, the average company since I believe it's, in 1920s if I'm not mistaken. It is 1928, the S&P 500 with dividends returned 9.7% annually since 1928 so I'm not just pulling a number out of wherever. If you're looking at high dividend paying stocks, those dividend aristocrats that investors use to compound over time those returns are even greater. They're slightly greater. It could be a big difference guys because right now if you're looking for companies on this list … again, if you punch up 'dividend aristocrats' you'll be able to find a bunch of these companies, you want to try to find cheap companies and more important you want to find companies that have a growth model which will limit this list tremendously.

A lot of these businesses are boring in paper and water, you have Target on this list which I think is a screening by right now especially if you're going to do a compound strategy. You're going to buy it and hold it for a long time just keep reinvesting the dividends. When you're looking at this, and you're looking at compound calculator, and you invest $10,000 at 10% annually over time your first year you're going to make 11,000. Your second year you're going to make a little bit more because you're earning interest not on the 10,000 now but you're earning it on the 11,000. After year two it's not 12,000 it's 12,100. The following year … you can see why compounding … you're basically making money on the money that you're making. If that makes sense. After 40 years investing 10% and just closing your eyes and looking at it 40 years later. Again, we're talking 40 years, I know it's a long time guys but that $10,000 turns into $452,000.

It's not talking about adding money every month which people do sometimes in the 401(k)s or whatever or every year but if you're adding, say, just $200 to your investment each month … Just to get everyone on track, so you start with $10,000 and if you start with $10,000 and your average return is 10% annual, again these guys pay high dividends a lot of them are 3% plus so you're looking at like 7% returns annually on the capital gain side. If you invest 10,000, 10% annually after 40 years and say you're investing or you contribute just $200 a month to your investment, just $200 a month over that time that $10,000 after 40 years turns into $1.57 million. That's over 15,500% returns.

Think about that if you're 30 and you're going to retire in your 70s. Now, you're a millennial listening to this saying, "Wow, holy cow, this makes sense." I could assure you that people who are in their 60s and 70s are probably listening to this going, "Man, I wish I did that. I wish I met Warren Buffett in the 1950s." When you look at this and you see it for millennials and even if you're 40 or 50 years old ... 50, 25 years you could be holding these investments. You're going to have your 401(k), try to max out if you can especially if your employer's matching a little bit. Just buy whatever, if it's an S&P 500 fund or if there's dividend aristocrat funds which I'll get to right now actually. I've done a lot of research on this and try to provide as much stuff for you as possible because I get so many questions about these dividend aristocrats.

If you're looking at the ETFs there's a few of them. VIG, that's Victor, Ingrid, Gary so it's basically 188 different stocks that have a record of increasing dividends in expense ratio it is 0.9% and it doesn't get better than that. That's a Vanguard dividend depreciation ETF. You have the SPDR S&P Dividend ETF which is SDY and that holds about 110 stocks. These are also holding companies that have consistently increased their dividends every year for at least 20 consecutive years. You also have ProShares S&P 500 that's a dividend aristocrat ETF specifically, that's NOBL. Basically that's 25 years companies have raised their dividends annually for 25 years in a row. There's three ETFs that I definitely think would be a good addition to your portfolio, something that you could buy and hold long-term.

However, for me, because I'm an analyst and I look at this stuff every day I would not buy an ETF. When I tell you buy GE right now this is what I'm looking at. GE, I think, is one of the greatest buys right now. Insiders are buying, you're seeing two of the biggest largest fund in the world. I covered this in a question on Friday, Ray Dalio was buying it and just added a position to it. You have all the insiders buying it like crazy, there's all cash flow concerns. The risk is on the table, it's not going to be cash flow concerns. I explained that. Right now, buying GE at this level I think and closing your eyes in 30 years you're going to earn more than the 10% average annual return in 30, 40 years. I really think it's going to outperform the markets.

I provided a lot of this information, I guess, in past issues. I want to write another issue about this but if you're really looking at, say, a company that generates, say, just 2% better return so instead of averaging 10% return you average 12% returns that difference could be enormous over a 40 year period. You say, “Well you know? 10%, 12% I don’t know Frank, it’s really not that big of a deal. Should I take on that risk?” It’s definitely worth it if it’s a stock that you’re going to hold for a very, very long time.

For example, that difference between 10%, 12% annual gains. Like I said, it may not seem like a big deal but when you’re using the same compound calculator, the same example that I used earlier so say it’s 10% annual return on a $10,000 investment that generates 452,000 after 40 years. If you increase those returns from just 10% to 12%, those annual returns, on a $10,000 investment it’s going to generate $930,000 in 40 years. It’s more than twice the returns over a 40 year period simply by increasing your annual percentage rate by just 2%. That’s why you want to find that edge.

Again, I’m explaining GE but probably the number one stock that I would buy right now is AT&T at this price. It sold off a little bit, they just had a deal in place that basically got outbid by Verizon and people were upset about it but the stock has come down. When you look at AT&T at this level it really is an unbelievable company. AT&T does a great job of adapting with the times over what? Since Alexander Graham Bell invented the telephone, that’s 1876. That’s the foundation of the company that soon became AT&T. When you look at through the decades especially since the past 20 years regulation, and basically being almost like a Dodd-Frank regulation, and opening up the markets a little bit more. That always adapted through acquisitions if it’s Cricket, Bell South, SBC. Recently I told you about the game changing acquisition, DirecTV which is amazing. They purchased for 49 billion, 38 million paid subscribers.

DirecTV has the best technology in the market but immediately AT&T became the largest paid TV provider in the world. You’re like, “Oh yeah but cord cutting and stuff like that,” but they have streaming services, their margins are up, it’s an amazing asset that they made a fortune on. It was a complete bargain buying at $49 billion, it’s still. They’re generating huge, huge returns from that investment. Now, AT&T is going to acquire Time Warner. That deal’s probably going to happen at the end of the year. It’s definitely going to happen, there’s no way the government could stop it, it’s two different industries. I think AT&T, I really believe this, is going to catapult into the ranks of Google and Apple in terms of becoming one of the most disruptive technology companies on the planet.

It may sound crazy because we're talking about a slow-growing company. They're not going to be a slow-growing company anymore. They're purchasing Time Warner for 85 billion. Guys, Time Warner is a massive, great, amazing content provider. CNN, TBS, TNT, Warner Brothers, HBO, they also have sports rights to NBA, Major League Baseball, NCAA basketball. Now you put that together with DirecTV which has the NFL package ... also AT&T says it's going to be immediately accretive to earnings which means they're going to make money off this deal in the first year which is great. Sometimes it takes a couple years for that investment to pay off but if you look at the bigger picture guys AT&T is one of the largest distributors of content in America. They have over 147 million wireless subscribers, 47 million paid TV subscribers, another 60 million broadband subscribers.

In fact, they're rolling out fiber everywhere which delivers, I'm pretty sure, the fastest speeds out there. Right now it's already in 5 million locations. We always talking about Google Fiber this is like 10, 20 times bigger than Google Fiber already that's how quick they're rolling it out. Now you have the distributors because you have all these people on their phones, wireless, watching TV and now you're taking over Time Warner which is one of the largest content providers in the world. They have an unrivaled library of entertainment. Now AT&T is going to be able to directly distribute all this content to hundreds of millions of people that they distribute all the stuff to. They distribute all this. Think of advertising revenues, think about big data and allies in this market. Not only that when you look at AT&T you think wireless and say, "Wow wireless, America it's saturated." Everybody who has a cell phone has one. That's right. That's why they did the deal.

DirecTV, that's why they're doing it to Time Warner, and when you look at their competitors if you're looking from a [i-ba-ta-is 00:56:08] level guys. If you look at T-Mobile, you look at Sprint, you look at Verizon average 95% of their [i-ba-ta-is 00:56:17] comes from wireless which is a saturated market. Which means those guys are going to be fighting prices and that's why AT&T has come down. Competitive pressures, people offering these old data plans at 60 bucks. These two acquisitions, AT&T their revenues or their [i-ba-ta-is 00:56:33] more or less is going to be about 52% coming from wireless. Now they're pushing into these growth industries where their competitors are stuck with this whole wireless thing and they have the spectrum to get into 5G. If you looking at the moves that they're making and their foundation for the future it's unbelievable.

They have the largest fiber footprint, expecting 12.5 million customers by 2019, a ton of spectrum which is going to be huge for the 5G, even faster speeds. They already have the fastest speeds through their fiber. 147 mobile subs, that's IoT right there and only using those phones. You have big data, Cloud analytics. Here's a company that's involved in all of these trends but yet when you look at the company its trading as it's a slow-growing utility. It's 13 times earnings and it pays a 5.1% yield in a market that's trading what? 17 times earnings and the average yield is 1.8%.

If you're looking for dividend aristocrats it doesn't get better than AT&T and second with GE right here. You want to see that growth model because what's the future? What do you see AT&T 10 years from now? They're going to be controlling and operating all these smart cities all over the world, and all the data, they're going to have access to everything, what you're doing. GE: brilliant factories, machines learning from each other, everything. They're just going to create efficiencies. These are multi-trillion dollar markets compared to buying American States, California Water Services Group. What would you rather buy? Both companies are dirt cheap here.

I look at AT&T, the 20 billion in cash that they're going to be generating by 2020, that's going to go higher and higher. When you look at dividend aristocrats it doesn't get better than it is to something that you can buy right now. Guys, 5% yield on AT&T at a company at 13 times forward earnings and they're expected to grow. Even the analysts believe that you're going to see close to double-digit growth in sales and earnings over the next few years once this transition takes place. Even if they're wrong and it's 7, 8% and not double digits it's still a very high number and you're owning a company at 13 times earnings that's growing probably faster than the market's going to grow and it's going to pay you 5.1% yield.

It doesn't get really better than that when you're looking at these names but when you look at dividend aristocrats and you want to create that portfolio that's what you look at. Don't just look at the dividend yield. Some of these have yield of 1 1/2%. Tenneco has a 1.2% yield. Target is at 4%, Target's another company. You want to be able to buy these things when things are bad but you know they're going to be okay. I know that Target's going to be okay, I know GE's going to be okay, I know AT&T's going to be great. You're not buying some crazy company that you're like, "Whoa, maybe in 20 years from now it won't exist." A lot of these companies have been in business for a very, very long time and when it comes to dividend aristocrats people ask me all the time ... Brady Corp is another one, Bemis was another one. They hold these stocks forever and a lot of them have done well and some of them, just a few, have come down.

If you take the whole portfolio they did amazing but I can't believe I wrote those issues four years ago and I'm still getting questions and people are holding them. That's exactly what I wanted when I wrote those issues. Of all the stocks of recommended I don't get that, people asking me about stocks from four years ago that I recommended but it holds true for this. I'm probably going to create a whole issue, and write about these, and just really follow these in my newsletter going forward for people who just want to to own stocks, own them for the long term, and compound these things. Again, when you look at those compound calculators guys that money really adds up and you could make an absolute fortune.

Thank you for all those emails. I wanted to cover this. I've been getting those emails for six months and I just thought this would be a really cool segment. It might be a segment that people are familiar with and are familiar with dividend aristocrats but, at least, you got a few ideas that will work for you after you want to buy and hold forever, and just continue to compound those dividends, those capital gains.

Guys, if you have any questions in stocks my newsletter's 'Economy Sports' just send me an email at frank@curzioresearch.com, that's frank@curzioresearch.com. I'm going to put 'Frankly Speaking' in the podcast and your question may be answered on my 'Frankly Speaking' podcast which I host every single Friday. I love doing that. Again, just email me at frank@curzioresearch.com. Our listener base is growing so, obviously, I can't get to every single question but I have been getting to as many as I can. Also, as you know, I can't give personal advice so you can't say, "Frank, what do you think of this stock? How is it going to go question mark" it's got a be more telling to an audience so I can't give you financial advice on, basically, how to low your debt or anything like that. We're newsletter providers and so it's very important we stick to that. Just keep that in mind if you do send me an email, again, at frank@curzioresearch.com.

One last thing here, I'm not the most religious person but if you can say a prayer for the family that I talked about in my opening, just really great people that everyone on this island liked. It's a sad story so you don't need to write me about it, or whatever, or send an email. Just the point of my opening was life could be cut short so enjoy yourselves, have fun, and you don't have to be responsible 100% of the time. Make sure you have fun and enjoy life because it could be short sometimes. Guys, that's it for me. Thank you so much for listening. I'll see you in seven days. Take care.