WALL STREET UNPLUGGED

AUDIO TRANSCRIPT

Frank Curzio: How's it going out there? It's Wednesday, July 5th. I'm Frank Curzio. This is the Wall Street Unplugged podcast, where I break down the headlines and tell you what's really moving these markets. The last week was really cool. This is my podcast from, I believe, about two weeks ago. I interviewed Frank Holmes, from U.S. Global Investors. They just launched a new gold ETF on the New York Stock Exchange. During that interview, he invited me to his closing bell ceremony, which was last Thursday. I'd been to one of those before, for Humana Gold. I think it was in 2006 or five, or something like that where they had breakfast, they give you a tour of the New York Stock Exchange. This was the opening bell. Another guy was talking about the history of the exchange, really amazing stuff.

It's really cool just to be down there, even though it's not as crowded as it once was, maybe about 10 years ago. And, when Humana actually rang the bell, the executives went over to the platform, fits about 13 people or so, I was escorted down below, but it was still really cool. I thought,"Man, it would be really cool to get on that platform one day."

During US Global's ceremony, they had only 12 people from that company in attendance, so I was able to go on the platform with them and actually close the New York Stock Exchange, which was amazing, when you consider the people because it was the same day Blue Apron opened the closing bell ... they rang the opening bell. They brought 500 people with them. That's how many people they had with them there, which was crazy because we all know what happened with Amazon.

Amazon purchased Whole Foods and Blue Apron was actually supposed to come out at 14, they came out at 11, and if I'm the CEO of that company and you know you're going to go on CNBC in a little while when the stock opens and you want to make sure that's not going to get crushed. It did go up about 10 percent and now it actually started falling lower. But, just to show you how many people actually sometimes attend these things.

But, for US Global, they had 12 people. I was able to get on the

platform and it was an amazing experience, guys. I mean, I can't even explain it ... something my dad always wanted to do ... someday ring the bell for my own company, we'll see. I just want to say thanks to Frank Holmes for inviting me, which is really, really cool. Going to New York, real productive trip. It was on a closing bell, so CNBC is just below us, that studio, so we're on top.

It's funny because you see who's coming on the set and everything. Guess who was on the set? Stephanie Link. So, we got a chance to talk for about 30 minutes or so, it was awesome. Really good news, guys, maybe good news? She is actually asking her compliance, she works for TIA-CREF, she runs the North American division now, if she can come on the podcast again. She had to fight to actually go on CNBC, and it's almost like ... it is a monster investment firm, but even with hedge funds and stuff you have to be very careful. They don't like to talk publicly about things, a lot of regulations. She said, "Hey, you know, I had to fight to get on TV." She's like, "It should be okay." She'll let me know.

If you don't know Stephanie Link, if you're a premium subscriber to Wall Street Unplugged, we worked together for Jim Cramer at thestreet.com. She's one of the smartest stock analysts out there. We'll talk about 50 stocks sometimes on one show. Brilliant, solid track record. She's also humble. She'll come on and say, "Hey, I recommend this stock and it was wrong." It's really cool when you see that in this business, because we all know that sometimes you're going to be wrong, you're not going to be right all the time. Just to come on and tell people, "Hey, I know that you will listen to me. You might have bought this stock. Here's what you should do." To me, it brought so much credibility and that's what I want to do.

You want to be there for people, especially, you have to understand that responsibility that you have a large audience that's actually listening to your every word. They're following your advice and they're going to take your ideas and you want to be there for them when they're wrong. When you're right everybody loves you, everybody's high-fiving you ... I think that's big, and just shows integrity when you're there for them when things aren't going as good and she's always done that in the past; qualities you don't see often from too many analysts these days, I think. Especially on CNBC where they'll talk about a stock ... they never bring it up. Oh, you should buy this company ahead of the quarter and then against caution, they never interview the guy again, which is kind of interesting. She is probably one of my top guests in terms of receiving positive feedback from you, so I hope she can come back on because I miss talking about stocks and she's just

great.

Also, had some really cool meetings with some producers, so I may be doing some more TV going forward. I used to do FOX and CNBC for a little while, when I lived in New York. Little bit time-consuming. It's not easy because they'll give you a list of topics to talk about and based on what's going on during the day, they'll flip that around five minutes before you go on set, which is difficult for a lot of people to adapt unless you cover a lot of different sectors, which is something I've been fortunate to do. Because I worked for Jim Cramer, we had to cover every sector, every stock. They like that. It's like the fast money guys, right? They talk about every subject, every topic, all stocks across all industries, not just focused on oil, technology, or biotech. They'll bring a guest on to talk about a specific sector, but these are the four people they have will go anywhere and that was something that we talked about. It was really productive, a lot of productive meetings.

Also, I spent time with some very close friends I've known for over 30 years. People can tell you funny stories about me that you probably wouldn't believe since I was a real pain in the you-know-what when I was younger. Always getting into trouble before I grew up, which, took me until about the age of 40 to grow up, maybe? Just reminiscing about old times, it was really special.

The only bad part of my trip was coming home where I flew out of JFK, sat on the runway for, I'm not kidding you, two and a half hours. They're lik, 30 minutes, another hour, another ... It was insane. It's already delayed a half hour, then we get on a flight and it had nothing to do with weather. It was more about changing our gate where we left from the international area of the airport so we had to wait, not even kidding you, more than 25 planes to fly out of JFK before we could leave. They actually came on and said that, "We have another 25 planes to go. It's going to take anywhere from 6 to another 90 minutes." That's only half the story.

There was this 70-year plus lady next to me, little bit heavy-set, and I think she might have had Tourrette's Syndrome. I'm not making fun of this, since it's a serious disease, but she was cursing out loud, dropping f-bombs, yelling, so the whole plane could hear her. I had headphones in for the two and a half hours I'm on the runway, ignoring her and she's talking to me, having a conversation with me, not knowing I'm not listening to her. This is for hours. I mean, she was yelling, "This pilot is an effing liar," every time this poor guy made an announcement. She was like, "We're never leaving this crappy airport and eff Delta." Delta had nothing to do with it since tons of flights from every airline was delayed for

hours.

Then, she got everyone on the plane going. It's almost like infectious where other people started getting really frustrated and one girl was like 22, and she was saying flights can no longer go into Jacksonville after one a.m. By the way, we got home, eventually, at three a.m. This lady taps me and asks me if that's true. I'm like, "No. I've come home 3 a.m. plenty of times. That's not true." All of a sudden, this lady's like, "No, flights can land past 3 a.m. in Jacksonville. This guy right next to me said he knows." I'm like, "What are you doing? Just shut ... " Crazy. Something from Twilight Zone ... I don't know, shouldn't even keep going with this story. Even when we took off, the lady opens like a little box of Sucrets and there are, like, a hundred little pills, all different colors. She just takes a handful and swallows them and drinks some water with it. Thirty minutes later, she's passed out and she's on top of me, and it was just crazy. I couldn't wake her. I tell you again, it was like the Twilight Zone. I don't know.

Other than that ... This is why you all should start your own podcast because you just vent and get everything out and you feel better. Other than that, as crazy as this lady was, even when she woke up she was yelling when we landed. She called the husband, the husband's name is Carl because I heard it as she was yelling, saying, "Carl, get the eff up, I just landed. Pick me up." I was like, I have to get off this flight. Besides that, the five hour trip, which was like the Twilight Zone, New York was great. Saw some old friends, had tons of productive meetings with people that could eventually be a huge part of Curzio research.

Now, I'm back and about to interview an all-time favorite, who always gets positive feedback from you when we talk stocks. That's John Petrides, managing director and portfolio manager at Point View Wealth Management. Has over 15 years of experience in investment management, regular on just about every TV show. You probably saw him on CNBC, Bloomberg, CNN World Business, Wall Street Journal Radio. Love having John on because we can go anywhere with the interview and talk about the hottest topics in the market. That's exactly what we're going to do today. John sees a lot of opportunity in retail. A sector that's gotten crushed over the past six months. Something that you guys should be looking at for ideas. When everybody hates something is when you want to buy it, and everybody hates retail right now.

There was just a big acquisition in retail space by a private equity firm, which was kind of a surprise. John's going to break down that transaction, also, he's going to share a few names, like he always

does, that could be the next takeovers in the retail space. A lot of these names that are trading here are historical evaluations right now after they got crushed over the past 6-9 months. He's going to talk about one of his favorite large cap plays as well, which is also one of my favorites, but he loves it for a different reason, one that's helped Microsoft become a relevant player again. The reason why the stock's up 100 percent in the past three years. Don't worry, if you haven't figured out the name, I'm going to share it with you. WE always do.

My interviews with John are always really good because he shares tons of ideas, which I know that you love. Also, I love as well because I've used some of those ideas for my own personal benefit. So, great interview coming up and finally my educational segment. I'm going to break down Nike's earnings and why we were able to nail this one and I will tell my losers. I told you to buy shares ahead of the quarter, a strategy that I'd probably tell you never, ever, ever to do, but in this case, it made a lot of sense. Nike shot up over 10 percent after reporting solid earnings and offering pretty solid guidance. This wasn't a guess, there was actually a lot of research behind my recommendation to buy Nike ahead of earnings. I'm going to break down the strategy, tell you all about it, which could not only help you generate solid returns and short term returns later on, but also save you from disaster. So many people enjoy buying and even shorting stocks into the quarter. Before I break down Nike, let's get to my interview with fund manager, my good buddy, John Petrides.

John, thanks so much for coming back on the podcast.

John Petrides: Thanks for having me on Frank and Happy 4th of July to you and hi to everybody listening.

Frank Curzio: Ahh, to you, too, and to your family, buddy, I really appreciate you coming on. Sometimes it's hard to schedule since it's the next day right after, as soon as some times that will be easy to schedule where I was on vacation. I really appreciate you coming on. We've been talking lately and I thought it was ... You brought up some trends that have been happening and I want to start with retail here. The market, we've seen so many companies, Macy's, Kohl's, Nordstrom, get crushed over the past few months, a really bad trends. Yet, we saw a little bit of good news in the space ... Kind of surprised, private equity firm, Sycamore, came in and announced that they were going to acquire Staples for almost 7 billion, $6.9 billion. Remember, Staples tried to buy Office Depot failed and the CEO stepped down from Staples, or whatever it was. Very interesting, right? You've seen this deal coming in now where ... Is

this a trend? Do you see this being a bit bigger or just kinda like, hey, Staples was dirt cheap. We're going to come in, we can make money off of it?

John Petrides: I think every investment, every great investment, is a function of the price you pay for it. With Amazon acquiring Whole Foods, and obviously the rent and eCommerce and Amazon dominance and low cost, basically the market is pricey and I think the end of retail. I was watching, I caught a little bit of the news last night and was watching the Macy's fireworks display, and I'm wondering, in ten years' time, is this going to say the Amazon fireworks display? It's not going to be sponsored by Macy's anymore. I don't think retail is going to away. I think there is a point where the U.S. is overbuilt and we have to right size square footage, but there are stores that are successful and are not going to go to zero.

I think it's interesting that private equity firm ran into buy Staples. This was rumored back in December 2016, Staples was a little bit over $7 a share that a private equity firm would come out. We didn't know who it would be. Here we are with a deal as it is now, almost a 50 percent premium. Staples, the poster child for the biggest target, as far as being dominated by the eCommerce world and Amazon of the world, has found a buyer. Someone has found the cash flow attractive at a certain price. I think that you're going to see other retailers have the same fate where target equity may come in and find their product attractive at a certain price and try to run the ship better and extract whatever cash they can.

Frank Curzio: It's interesting because you bring up Amazon, and I heard the square footage argument from so many people. I see these malls and a ton of space there from these companies, but they have Amazon who's actually getting more into big box with the Whole Foods acquisition, also putting up several warehouses to build out their furniture division and, basically, deliver in two days around the country. Amazon even came out and said they have to open up more warehouses, which could also maybe be open to the public, I would think, maybe. It seems like there is a right mix, it's not 100%, you gotta be eCommerce or you have to be big box, obviously if you're looking at Amazon, which is the biggest eCommerce in the space, there's a mix these companies have to find and the fact that so many of these retailers that have gotten crushed that are cheap, if you have a company like Sycamore that can actually figure it out and figure out the right business model, where Staples, 60% of their sales come from online. It seems like this industry could be ripe for a lot more takeovers at these levels where these stocks are trading.

John Petrides: I think that's exactly right. I think Best Buy is the poster child of what the retail space needs to do. Go back to 2012, 2013, Best Buy stocks fell down to about $10, $11 a share. Everyone said, well, how is Best Buy going to compete with Walmart selling flat screen Tvs at such low prices, and Amazon getting into the business, and Best Buy really took out their red pen and started shutting stores down. They stopped adding to square footage and the way to grow if you're a retailer is quite simple. If your same store sale, how you do in a monthly basis, plus your square footage growth, and if you take square footage growth out of the question, you're basically telling investors that you're not looking to grow and you're hunkering down. What they did was, they cut all of their underperforming stores. They stopped the growing of square footage. That actually has a very good effect from a cash flow standpoint because everything falls to the bottom line. What you do is really start reinvesting to those stores that are already very profitable. You can buy back stock and do a lot of other good things for shareholders and instead of growing to ramp up square footage, you could focus on your in-store experience.

Look at Best Buy today, I think it's nearly a $50 stock, so in four years, the stock and gone from 10 to 50, or something along those range. I think you're going to see a lot of stores follow that model. There's still a lot of blood to be had in the retail space. By no means have I said ... Do I feel like we've found the bottom. You're going to see again square footage growth continue to consolidate, continue to come down, and ... But, eventually, every retailer will find an equilibrium and they'll be able to have very profitable stores.

Look at Home Depot. Home Depot hasn't opened up new stores at a rapid pace in over 10 years and look at what their stock has done ... Really since 2010, 11. Look at Walmart. Walmart stock was stuck in the mud from 2005 until 2008. Until they realized, hey, we shouldn't be opening up 187,000 foot big box superstore one mile away from each other because they're cannibalizing sales. They stopped growing square footage, all the cash fell to the bottom line and now they're investing very heavily on the online sale. I think you're going to see a lot of that across the retail space. I would use Best Buy as the model that there still is a lot of blood to be had, but we will reach equilibrium for these retailers.

Frank Curzio: It's so funny you say that, because I really believe, and I was going to write about this and talk about this probably over the next week or so. I think Best Buy is the next purchase by Amazon. I can say that because they figured out how to compete with Amazon,

where Amazon was undercutting prices, now they match Amazon's price. But when it comes to electronics, Tvs, you like to go into the store and see it. People used to go to Best Buy and say, wow this is the TV I want and go buy it on Amazon. Now, you can go there and they'll say, no, we'll match the price, whatever the best price is and we'll match. Not only that, we have Geek Squad, which is a high margin business and we'll put your TV on the wall and we have all the accessories.

It's working to the point to who is Best Buy's competitor out there? When I say competitor, I mean going into an electronics store and having someone know the answer to every single question that you're going to ask them, where you don't even get close to that at a Target or Walmart. They just sell these products, they have no idea about anything. They already have big box stores located everywhere, so they don't have to open a warehouse, but it just makes a lot of sense considering the industry. We've seen a lot of competitors fall like crazy, now you have Best Buy sitting there. It just seems like a logical thing to do for Amazon, based on the Whole Foods model to me.

John Petrides: Best Buy is in a really nice spot, too, as we move to this trend of the smart home. The Echo, the Google Home, these voice boxes where they're basically becoming your assistants within the home. Think of the nest, what Google has done with the Simone or the temperature, thermometers in the house, thermostats, I should say. You're going to have more devices in your house, more hardware that you're just going to need a distributor to get them. I think people need to understand how to use that, and I think having that experience in the store helps. I don't think that has totally moved to an eCommerce platform yet.

I do think the idea that private equity came in and took out Staples, I think there are other targets out there that could be potential take out targets and it's not surprising, too, that private equity is going to start ramping a bit further here. The Federal Reserve has raised rates three quarters in a row. This idea that cheap financing is going to be around forever is probably going by the wayside, so they want to take advantage of the low cost of capital low interest rates to they can borrow to lever up these retailers.

I think you're going to see more of that as well because interest rates are rising.

Frank Curzio: That is interesting, too. It's like, hey, let's jump in right? It's almost like home refinancing, too, right? You see interest rates go up, it's almost like you see those numbers go up pretty much before that

tightening cycle where everyone's trying to get a last minute thing here. I bet we're looking to, from what the fed says, to aggressively raise interest rates, which is surprising since we're not really seeing inflation based on what they look at, CPI, yet they still say we need to aggressively ... Which kind of is a little bit scary here where we've seen over 10 of the last 13 tightening cycles over history that 10 of those, we've fallen into recession, I believe it's 18 months later when we began those tightening cycles. It's interesting to see, so people say, if interest rates are going higher, let's get the best deal now. Let's try to leverage ourselves.

What are some examples, you've, actually, we've talked about a couple of these, that you can see Amazon taking over, or you can even see private equity firms going after? A lot of these stocks are cheap. I'm not saying they're cheap because their stock has come down. That doesn't mean they're cheap that their earnings aren't good. They're trading in single digit P/Es. They're still growing a little bit, albeit a lot slower than they were over the last 18 months or so, but they're trading at levels that seems like they could be good buys if you have the right strategies in place. Do you have some names to share?

John Petrides: The one name that we've been buying for clients for quite some time now that I think could be a really interesting private equity takeout, more so than an Amazon takeover, is Williams-Sonoma, ticker WSM. Williams-Sonoma is a four billion dollar market cap company. It's trading about 12 and a half times earnings, less than one time the price of sales. Williams-Sonoma sold very high end kitchen ware. They own the West Elm brand for furniture. They cater to, I guess a higher ticket price type of client and the fact that you have the housing market is very solid right now. The wind is at their backs for those types of purchases.

What I like about the company and why I think it could be interesting from a private equity standpoint is the company has no debt on its balance sheet. Zero. They get 51% of their sales from online. They have been established and they are established in the eCommerce world. Here's a company where no debt, private equity if you take it up valuation on almost every metric is not excessive at all, 12 and a half times forward earnings, .9 times sales. The company right now pays shareholders a three percent dividend yield. If private equity can borrow at three, four percent to lever up the balance sheet, you are going to generate more than enough cash flow to cover the interest expense. They have, Williams Sonoma has fantastic brand name awareness, so this one to me seems like it's ripe for a takeout target. I have not seen any

rumors on it, I have not heard anything about this company being taken out. If I was a private equity person that was interested in getting into the retail space, I think Williams Sonoma is quite attractive.

Frank Curzio: A few things to realize, too, John, to you, at a point where you're looking at these private equity firms, guys, they're sitting on a lot of cash. Sometimes, they're not going to get paid just by being in cash. Their job is basically open up even side funds to look for deals. They're constantly looking for the right deals. In order for them to get paid even investment fees, they have to invest that money over time. You're not going to give someone cash and go charge whatever two percent and just sit there on cash when you could just put in your own bank account and not get charged. You're investing in these private equity firms where their job is to look for ideas and right now, like you said, with retail coming down, it seems like ... Just want to bring that point up. Sorry I cut you off, though.

John Petrides: No, that's okay. When we value companies and we look for investments for clients' portfolio, we try to put on a hat as if we were private equity. Private equity, at the end of the day, is thinking long term when you're making an investment and they're focusing on a company's cash flow. We always prefer companies that are either in a net cash position on their balance sheet, meaning they have more cash than debt or don't have any debt at all because then they just don't have to worry about liabilities and they can take all the cash flow across the bottom line and reinvest in the business or return to shareholders. I think that Williams Sonoma is actually quite attractive here, particularly from a private equity standpoint, and if you're looking to diversity into the retail space, I think this is a very interesting stock to own.

I guess one of the fall outs from the Walmart, not the Walmart, the Amazon - Whole Foods deal is in the grocery food side, the grocery stores. I think Kroger is actually quite interesting. If you look at private equity firms like Cerberus and KKR, they've spent the last 10 years taking out super markets. Cerberus took out Albertson's private and Safeway, Supervalue, all of these companies have gone the way of private. Kroger's stock has just gotten crushed over the past year. That's trading at .2 times sales, a grocery food store, that's unbelievable. They generate a tremendous amount of cash flow. They're in a net cash position on their balance sheet, again, they have more cash than debt. The second largest grocer in the United States, behind Walmart. Here's a stock where I would not be surprised if Cerberus came in and took them out, given that

they've taken private so many other grocers. They would have tremendous scale across all their grocery store portfolio if they were to take out Kroger. Kroger is a very well managed company. I think Kroger will be a really interesting takeout target as well.

Frank Curzio: Not only did they get crushed and people thought that was the kitchen sink after earnings, and then the Amazon deal came out and they got crushed again. It's kind of like hurts ... [crosstalk 00:26:51]

John Petrides: Valuation again, what I said in the beginning, every great investment is the function of the price you pay for it. That current price is very, very attractive. I don't see Kroger going out of business because of Walmart and Amazon. I mean, Whole Foods and Amazon.

Frank Curzio: No, that makes sense. That kind of like hurts. That was a 40, 50 dollar stock that came down to 10. We all know the rental on the street is struggling right now, but it's not going to disappear completely. You're seeing slow growth, but hurts at just nine bucks, just seems like a steal to me and obviously it's starting to trend higher, but it got destroyed, but like you said it's a function of price. Maybe you could elaborate a little bit more about this, too, John, because ... Individual investors listen here, you don't want to buy a stock solely on a takeover because 99 percent of the time it's not going to happen. You want to make sure when you're discussing WSM just now, what was it 12 times earnings, they pay a three percent yield, you sell the stock it gets hit a little bit, it's still very, very attractive from a valuation standpoint, you're going to get paid to wait if they turn around operations. You want to make sure you're looking at everything, if you like the stock, and not just solely on a takeover, right?

John Petrides: That's right. The key lesson, to me, that I've learned over the years in investing is, try to take the emotion out of looking at the screen as you have to ask yourself, if I did not own this stock today, would I buy it? By asking yourself that question, what it forces you to do is basically forget about what has happened yesterday, or last week, or 12 minutes, or when you purchased the stock. Many people look at a stock they've owned it for 12, 18 months. Maybe 12, 18 weeks, and they say the see their portfolio in the red on the position, they say, oh my gosh, why did I do it? You have to ask why did you buy the stock in the first place? If you didn't own it, what has changed today that would prevent you from buying it again?

If you didn't own Kroger, would you buy it today? You have to be

convinced that the Amazon - Whole Foods relationship is going to put all the other grocers out of business. I don't foresee that happening. I think there could be a lot of issues with the Amazon - Whole Foods merger that many people aren't talking about. All the focus is on the upside and none of it's on the downside. That's what you have to start asking yourself, and I guess an important lesson investors should ask their self when you buy a stock. If you didn't own it today, would you buy it? In the case of Kroger and particularly Williams-Sonoma, I'd buy both.

Frank Curzio: Good question to ask. I appreciate that. Once again, talking to John Petrides. I want to move on here and touch on another subject we talked about offline, and that's GE, which is a company that's been a little bit under pressure. You hear some stories about pension funds. I addressed this in Friday's Frankly Speaking podcast why that's not really a concern with the cash they have. It's a good opportunity to buy.

When you look at GE, you brought up a good point, which is the change in leadership, where ... Can we look at a change of leadership at GE, which is kind of expected, I mean, they talked about this last year as well, this is probably going to happen this year or next year, but could we see something of an impact we saw with maybe Bomber leaving it when he sat down with Microsoft. We saw a lot of terrible deals he did, he also did good things, too. I have to give the guy credit. The share price is what it's all about. As soon as he left, look what happened to Microsoft, it took off tremendously. Could we see something similar at GE, is that a catalyst for you to look at buying the stock?

John Petrides: We have been shareholders at GE for quite some time. We continue to be buyers. I think that's exactly right. When I thought about the GE stock had done nothing for the 16 years Jeff Immelt has been CEO. Shareholders are expressing a tremendous amount of frustration over him as the CEO and it reminded me a lot of the analogy of Bomber with Microsoft. Microsoft missed the boat on so many levels since Bomber was the CEO, taking the reigns from Bill Gates. How did Microsoft make it dominance in the 90s? It was that it was the operating software on every PC in the world. That's how it did it. That set the model of how it printed all of its cash.

How did they miss the boat on not being the operating software on every mobile device? They let Android come in and take that reign. How do you miss that? You look at all the steps that Bomber did, he was really late to the game everywhere. Think of Zoom, when you had, Apple had the iPod. Microsoft with the Zoom, which was its device to download music and that was terrible. Think of

on the advertising space. They got into the game so lat when they created Bing to compete against Google. I mean, how many of us use Bing as a search engine? They bought Nokia on the handset side to try to compete, which was a big disaster. On so many levels, even the Cloud, Bomber was really late, and didn't execute at all, so the way I look at it, his legacy was how many boats that he missed and was really late to the game on so many issues. Satya Nadella came in and had a vision to really expand Microsoft presence on the Cloud and the stock has really been a double over the three years that Nadella has been the CEO. The two and a half years when Bomber left.

I think that John Flannery that as the CEO of the healthcare division of GE can give the same thing for GE. Jeff Immelt was, again, always late to the game. I remember in 2007, analysts were pounding the table, GE was an enormous conglomerate with GE Capital and they owned NBC Universal and then obviously the healthcare division and the industrial turbine business. Analysts were saying why don't you break this stuff up? Why do you need to own all these massive with zero synergy of these entities? It wasn't until 2010, 2011, that GE finally sold NBC Universal to Comcast at significantly lower valuation than they could have in 2007. The GE Capital portion was an albatross around the company's neck during the financial crisis. It wasn't until years later that that portfolio was sold or spun off at significant lower valuation for shareholders in the past.

GE's run into the energy space, I mean, how many acquisitions did GE do on the energy space in 2011, 12, 13, 14? When oil was over $100 a barrel. Think about how they wanted to get into the energy space today, all the acquisitions they would have done a significantly better valuation than they did back then. My point is that Jeff Immelt's legacy was that he was late to the game all the time. He really lacked a cohesive vision for the company. Flannery and it looks like the way GE is marketing itself as a tech-industrial. One of these companies focused on machine-to-machine communication. They're a big data industrial technology company. I think they really are trying to change who they were and they just completed the acquisition with Bakers Hughes where they formed a partnership with GE Gas and Services with Bakers Hughes on the oil and gas service side. What I'm thinking is that GE can unlock significant shareholder value and really focus itself into one specific entity as an industrial technology company and really start maneuvering to really position itself for the future much like Satya Nadella did for Microsoft.

I think GE has tremendous untapped potential, and it's going to

take time, obviously. It's not going to be done in one quarter or two quarters. It's going to take time. A three and a half percent dividend yield and stock trading at discounts in the market. You get paid to wait while the new CEO gets a chance to revolutionary the company.

Frank Curzio: Guys, just a quick update on that, too, the CEO came out and said we're reviewing all of our businesses in September. We're going to come out with a business plan. Yes, it will take longer to sell these divisions, but that announcement is enough to really ... You're seeing a lot of people call buying and going into that where they're expecting ... Just to give you guys a little insight on GE Capital where this was a company they said we're going to sell, which basically, like you said, I think, just slowing them down to add more regulation because it was considered to big to sell entity. Just like MetLife and some of the largest banks.

Their original projections when they announced that over two years ago was that they'll generate over 90 billion dollars. They generated 150 billion and that's just from selling off their divisions and selling off this division, the whole division. It was made up of numerous, dozens of different components within GE capital. Even they sold some more of their financial assets in other divisions for almost 200 billion dollars. That's one division and they're number one in healthcare. They're number one in so many things. Their cloud platform is growing and huge and they're partnered with everybody.

It's going to be interesting in September if he announces he is going to sell off a couple of divisions and make the company more lean. You're not going to have to wait for them to sell a division. That announcement is even the GE Capital stock went up 10 percent in one day when they announced that. It wasn't 18 months, 2 years ago. It does take time, but once they have a plan in place and people believe and see it, you'll probably see the stock take ... Especially from these levels, and we see that, right John? Dow components all the time where Walmart was the worst performer, the next year it's the best performer. Nike was terrible, now it's starting to come back. You see that a lot with Dow components when they go through these struggles. It's been a long time for GE, but it's interesting at this level compared to everything else valued against it.

John Petrides: Again, I used to argue that Bomber was the anchor holding back Microsoft stock because the free cash flow that Microsoft used to generate was just ridiculous. I felt the same way with Immelt. The guy was there about 16 years, it's not like he didn't have the

opportunities to create shareholder value, but he was just late to the game. Listen, I am not throwing stones. The guy managed a 300,000 employee workforce globally. Here, I am, a portfolio [crosstalk 00:37:51] in Jersey. By no means, do I think that I could have done a better job. The shareholder, I think, that new blood is very refreshing for GE. Again, the current valuation, I don't think it's excessive and you get the dividend at three and a half percent yield, you get paid to wait. I think it's a good stock there.

Frank Curzio: Definitely makes sense. I guess we'll leave it there. John, I love it when you come on because we're always talking about events that happen in the markets. You always come up with ideas, which gets so much positive feedback. I'm going to start throwing you everything from now on. I really appreciate you coming on. You have ideas to share and that's why my audience loves you so much. I appreciate you coming on at least once a quarter for us. It's a big help for me.

John Petrides: I love being on the show and keep up the good work on your end.

Frank Curzio: Thanks, buddy. We'll talk soon.

John Petrides: That would be perfect.

Frank Curzio: Alright, guys, great stuff from John, always sharing ideas. We also talked about Bed, Bath, and Beyond being a stock that also had gotten crushed. Very cheap now, possible takeover. Again, you don't want to buy solely on takeovers. You want to look at the fundamentals. There's a lot of retailers where the fundamentals make sense. We know the industry's bad, which means what? A lot is factored in. That's what you want to make sure when you look at the stocks, and I'm going to get to Nike in a minute, when you see people talk about IBM. The sales have been climbing for 10 straight quarters. They're getting the lunch eaten by everybody else. It's the same risks that people have been talking about which is why the stock went from 220 to 120. Now, it's bounced back up to 150s.

It's the same risk people talk about, which means what? They factor into the price, right? When people talk about risks outside of what's being talked about now, then you have to worry. But, when it's the same risk that we've seen in retail, North America's terrible, apparel's terrible, we know a lot of this, which means what? The companies know about this. Macy's, Kohl's, they all know about this. They're all coming up with strategies of how to get rid of their inventory. How can they make money off that the best possible way? How can they close square footage? What do they need to do? How many employees they have to lay off. They're all in this

strategy mode right now. If you see it believe me they see it. This is the business they operate in for decades. A lot of times it provides you with, hey, when we look at the retail space, it's beaten up, we know it's terrible.

It's so difficult for any investor, just psychology teaches us, buy something everyone hates. You want to buy something that everybody loves. Everyone loves Bitcoin. I've heard people invested in Block Chain, just going into private equity. You don't want to be doing that right now. The major move has been made. You see all this getting ... Like uranium stocks 10 years ago. There were 4, 500 uranium companies, what are there, 10 right now? When everyone's getting into an industry, it's difficult, it's exciting, that's usually the time to sell. When everyone hates something, that's usually the time to buy.

Right now, everybody hates retail, and a lot of these stocks are trading cheap. They're still making money, paying dividends. Their dividends are safe. They have enough cash flow to come in and pay those dividends. If you have a long term time horizon, maybe 18 months or longer, you're going to be sitting back and saying I can't believe I didn't buy a Macy's here, or Nordstrom here, or some other stocks. That's how you want to look at investing. I think John did a great job explaining that.

Now, it's my educational segment, which is about Nike. Last week, I recommended buying Nike before they reported earnings. A strategy I may have recommended on this podcast about six times, if I had to guess, in the last five years. Each time, I happened to be right, which means, the next time I offer this advice, do exactly the opposite, right? That's the way this game works. Be very, very, very careful, because I'm probably going to be dead wrong. In all seriousness here, here is my logic buying Nike ahead of earnings, which by the way, buying or shorting any stock into the quarter, it's kind of a fool's game. More like a coin flip unless ... Let me take you back a little bit. You're going to see why this call made sense.

As you know, Nike's a company I covered the past few years, told you to sell it, 62, 63 dollars in January 2015. After they reported record earnings in sales, and just amazing numbers. Actually, it's January 2016. I said it's probably going to be the worst point Dow component and it happened to be. I think it was in the top two or three, down over 20 percent for the year. When I was breaking down their quarter, their earnings beads for that current quarter, was mostly due to a favorable tax rate, buybacks, which reduced

the number of shares outstanding, which artificially increased earnings. Nike is the king at manipulating earnings. It's not illegal to do. Companies do it. They increase buybacks, they find ways to increase those earnings, even though you've seen sales not grow as fast. You'll see earnings grow 10, 15 percent and sales are growing two percent, it's because they're finding ways to cut costs. Finding ways to generate, increase their margins, generate as much money from a dollar as you possibly can to increase that amount since sales aren't growing that fast.

When I look at Nike, even in the two previous quarters, before I made that call, they beat earnings estimates. When I was looking under the hood, it's all manipulation of earnings. In fact, if they didn't buy back their stock and didn't have a lower tax rate, they would have missed the previous two quarters before I made that call. I knew this couldn't be sustained. So, to recap, this is January 2016, I recommended you short Nike over 60. Nike's run a field goal the past 12 months prior, nothing short of impressive. Increased sales by double digits in every geography they did business in. Generated 2.3 billion in free cash flow, sitting on six billion in cash on its balance sheet. Imagine it's said it's going to use that cash to increase its dividends, this is in January quarter, raising the annual around 15 percent.

They also announced a 12 billion dollar buyback program, which really sent the stock higher, so I think where they reported at was 58, it went right to 64. That 12 billion amounts to about 11 percent of the company's total shares outstanding. Guys, just know that's a huge, huge buyback. That's a massive buyback. Again, they said they're going to buy back shares over the next two, three year period with that amount. Lowering that chair count by 11, that's a huge deal. That's a major, major buyback. Sentiment was extremely positive. I was watching Fast Money. Stock was at all-time highs. These analysts love the name, love it. Great. Buy it. Nike, killing it. Great. Awesome. Said it was never higher. Analysts loved the name, you couldn't find a star rating on the stock. When I looked under the hood, estimates just got way too optimistic.

As a company, it was expected to increase sales more than 10 percent through 2020. Then they had feature orders at the time, which was a huge callous for Nike, were up 25 percent, mostly in China. I saw that growth from China was starting to rollover. In short, I knew there was no way Nike was going to meet it's inflated earnings estimates, even though they're great at manipulating their earnings. I just knew that wasn't enough to save the stock and turned out to be right.

When we fast forward, say, two weeks ago, ahead of the quarter, what a difference. What a difference a year makes. Everyone on CNBC and CNN, those Fast Money guys, hated Nike going to the quarter. Apparel companies in the retail sector, we know about them. Macy's, Kohl's, all these companies getting crushed, Nike got crushed, it was at 50 bucks I think, heading into the quarter. Everyone though, hey, Macy's, Kohl's, all these North American retailers that have exposure to North America are going to get crushed, and it's going to filter down to Nike, which generates a ton of sales from athletic clothing, specifically, North America. Analysts' estimates had come down tremendously.

Bank America downgrade Nike to sell. Baron's filed a cautious view on the company December, and reiterated the cautious stance in March. JP Morgan downgraded Nike just ahead of the quarter. I saw this analyst on Tv and he was, you know ... They downgraded the stock, JP Morgan, but they had a hold rating on it, but the analyst was like, I think he said Nike may have to cut something like 40 percent of its square footage, or some crazy number like that, which is a little scary. Thought he might have a sell rating on it. There was heavy buying going into the quarter, July 15. Expectations were incredibly low. Yes, I follow all this crap. That's my job. To follow what everybody thinks about a certain company going into the quarter. But if you look at sentiment, it doesn't get worse than that. Heading into a quarter, remember, Nike is great at manipulating earnings, right? I explained that so many times.

So, they cut their workforce in this current quarter by two percent. SG&A expenses were lower than expected, by about four percent. Their tax rate came in much lower than expected, at 13.7 percent compared to the 22 percent they got it for last quarter. This is the current quarter, they blow out where the stock went up 11 percent on the day. They purchased 15 million shares in the quarter, which amount to about 900 million dollars. If you're looking at going to the quarter, what, you have a 50/50 shot predicting what any stock's going to do at their reported earnings based on sentiment, and the fact that I know Nike is one of the best companies at padding their earnings. This is more like an 80/20 bet for me, and even if I was wrong, I felt the downside would be limited, since everyone already hated the company, right? We just talked about that. A lot of that is factored in.

When you see all these risks and they have too much square footage and North American sales, and this company downgrades, Nike's down over 20 percent heading into the quarter over the past six months. A lot of this is factored in. Everyone is expecting

this company to miss earnings tremendously. This segment is not about me bragging or getting Nike right. I talk about my losers all the time. I'm just explaining to you why I would make that call. Why I don't do it that often. Nike set up as the perfect opportunity heading into quarter. It's important to know that. We all know that buying and shorting a stock days ahead of earnings is kind of the guessing game. But, when you see sentiment leans so much to one side, it creates a nice short term opportunity. So, if you ask me my opinion on Nike today, right now, wait a couple of weeks until momentum wears off. Hopefully, the stock breaks 60 again and goes higher, and then I'd short it.

Honestly, Nike, even with all the manipulation growing earnings at 10 percent rate annually over the next two years, I cannot see that happening. Growing sales over five percent annually over the next two years since they couldn't do it last year, and we had the Olympics and the Euro Cup, two events that should have pushed earnings and sales much, much higher, that stock got crushed. Plus, 35 percent of their sales come from North America and they guided, they actually guided on the call for two percent decline in North American sales next quarter, which would make it the slowest growth rate for North America, for Nike, since 2010. We all know how bad the US retail market is right now. It's actually horrible. Nike beat the, blew out the numbers. I just, I can't see this being sustained.

So, the stock has went up tremendously. I didn't think it would go up 11 percent, more like 5,6,7 percent. Went up, you had the momentum to buy it, I would wait a little bit. You don't want to get in front of a moving train, but if that stock goes over 60 again, you see that sentiment from totally negative, where upgrades in stock, talking about prices going higher, and it's pushing back the other way now. It's going to provide you a nice opportunity, maybe not next quarter, but keep it on your radar. Nike, when they report, it's going to be very hard to meet the estimates they put out there for their guidance. Just don't see it happening. That's my opinion.

Hopefully, I broke that down good. It's not about me patting myself on the back. I just wanted to show you what I was looking at to help you, not only buy a company into the quarter that's down 20 percent and sentiment's so negative, but also be very careful when you see the sales force or a Facebook. They blow out their earnings estimates and a stock falls 5, 7 percent, and they're like, I don't get it. Why did it fall? Well, the stock is up 25 percent over the past three months going into the quarter. The expectations were for them to blow out the estimates and they did, and now

you're seeing a little bit of a pull back. That's what happens during earnings season. Hopefully, I explained that well, again, you're free to send me comments at frank@curzioresearch.com.

Anyway, last week, I mentioned I was looking to hire one, probably two new analysts at Curzio Research. You need to be hard worker, love the stock market, preferably, and have some experience in writing. The job's not going to be easy. I'll tell you right now, you're going to be working long hours. It's going to require a lot of writing and research, but for those dedicated few, you're going to learn more about stocks in this job than almost any place you could think of. You're going to be working directly with me using my research engines, having access to my contacts. A lot of you have written in already at frank@curzioresearch.com. I'm going to go through those emails this week. It's just in New York, travel a lot, a lot of stuff going on.

Anyone still interested, send me an email frank@curzioresearch.com. Do not send me your resume, just a few paragraphs about yourself and why this job is going to be a perfect fit for you. One thing, you're going to be required to move to Florida, near Jacksonville, which, I actually thought would limit the amount of responses, but I already received more than 20 inquiries. Moving to Florida, it's not going to be a permanent thing. Once you learn the business, once you learn the ropes, you basically can work from anywhere you want as long as I have access to you during working days.

If you're interested in becoming an analyst for Curzio Research, keep in mind, entry level position, with huge growth potential. Send me an email fran@curzioresearch.com. One last note, if you want to get real time comments from me, which include political rants, analysis on stocks, markets, economy, even sports, follow me at Twitter @frankcurzio is my handle. Be sure to make a note of that, again, it's Twitter @frankcurzio. Guys, that's it for me, thanks so much for listening. I'll see you in 7 days, take care.