WALL STREET UNPLUGGED

AUDIO TRANSCRIPT

Frank Curzio: How's it going up there? It's Wednesday, September 6th 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. Man, it's getting real in Florida right now. Hurricane Irma as of now is expected to hit south Florida. I live in north Florida, mid Atlantic. We're even taking precautions here since the hurricane, which is a Category Five right now could hit anywhere in Florida and they still don't know as of today. And Irma is tied for the second strongest Atlantic basin hurricane on record, 185 mile per hour winds.

Now if you're following The Weather Channel, CNBC, CNN, I mean everybody's really covering this now. You see hundreds of people waiting in line for gasoline, gas stations in Florida, they're all evacuating. Even where I live, again it's close to the Georgia border as possible on the Atlantic. I mean, the Walmart's, the Targets the shelves are close to empty, bottle water mostly gone in a lot of the stores. You look at Puerto Rico, which the hurricane is about to hit. They haven't seen a hurricane of this magnitude hit them directly since 1928. It doesn't get more serious than that.

For me, I was supposed to head down to Delray Beach on business, which is close to Fort Lauderdale, which is about a five, six hour drive for me. I was supposed to do that on Thursday, but I had to cancel all the meetings. My close friends in South Florida, again, Delray's like a big major hub for the newsletter industries, as well as Baltimore. They already left the area. For me I booked a hotel in central Georgia, about five hour drive away from me in case it does hit us but I tell you, it was difficult to get a hotel and we booked on Monday. And it's not supposed to hit our area probably 'til Sunday night, Monday. So a week early in case we have to evacuate, very difficult to get a hotel. Hardly any rooms available in like a 10 hour driving radius. I mean even in Atlanta there's nothing available, which is really far.

But it's kind of funny when you look at the whole page, because for us you know I have two dogs and a cat and a snake that my daughter won't leave behind. Don't ask. She's nine years old, loves every insect, reptile, ugly bug possible, picks them up, you know

which is why all boys in the class love her which I guess is pretty cool for her. It's likely to result in a lot of future beatings of these boys by me, but that's another story. You're looking at the storm as it comes up the eastern coastline, and I have to evacuate all these animals. I mean my car is going to be like a traveling circus if we need to get out of town.

And when it comes to my wife and kids it's funny because they're like, "You know, Dad if you stay can you give us updates on the hurricane, do Facebook Live or face time us or whatever." And when it comes to the animals they're like, "Oh, they can't stay here, they're going to get hurt." It's amazing where the priorities are. And when you have kids of course you know a lot of times you're gonna get pets and stuff like that, but as a husband father I'm ranking like eighth in terms of importance in my house, which is interesting. You know my family is like, "You know what are we going to do with the snake, are we going to take it with us." "You know we have to get a pet friendly hotel and don't forget the cat food." How about don't forget your father? I mean, what the ... 180 mile per hour winds. I'm brave but not crazy, I mean, it's going to be nuts.

But my kids are awesome. I think they believe that Daddy's invincible even though they forget I had two back surgeries and will need another operation on my knee next month. But the hurricane, I mean it's serious. It could wipe out counties if it hits Florida directly. By the way, I really appreciate all the e-mails I got from so many of you, your concerns that was really cool, hoping that everything's okay. And it was one guy was like, "Frank you know I hope you're okay, be safe you know everything's all right." And then he's like, "What's the best stock plays if the hurricane wipes out Florida?" You know, I love it.

I mean, forewarned, if Florida gets wiped out I'm going to kind of feel bad for the other states because the average I.Q. would definitely go down. All right, maybe a poorly timed joke, but I'm joking. A little bit. Half joking as you know, but second this is an investor podcast. You know I'll get a little serious on you. I wasn't sure, are there any insurance companies here? I mean forget Harvey, but after Matthew in 2016 most people in Florida upgraded their insurance. They have flood insurance now. That was a big problem and Matthew did not hit us, it wasn't a direct hit, we got lucky. But I know that a lot of people didn't have flood insurance, they were calling insurance companies and it was stories about it, so they should have it now.

You look at these private insurance companies while they have pretty much avoided making huge payments of people impacted

by Harvey because a lot of that is flood damage. Eighty five percent of the people where their houses are damaged don't have flood insurance. They're going to pay a fortune in claims if Irma hits Florida. There are also the cruise lines on this pull back. Royal Caribbean and you have Carnival Cruises, these companies are trading at dirt cheap valuations even though they're up a lot this year because their earnings have been really strong. Impact their business a little bit but those names pull back about 5, 7% and probably going to pull back the rest of the week probably into next week a little bit, but I think it will be strong buys, it's gonna bounce back. I mean, they see this stuff coming, they know how to prepare, they're used to it.

You're seeing cruise lines, also airlines. Probably a great buy here. A lot of those coming down. But in all seriousness here, Irma as of now could still hit my area directly and it's pretty ... I mean it's really scary actually. People are boarding up stuff, and they should be. It's only a few days when you really don't know what direction. If you live in Florida be smart, be safe, there's still time to get out of the state, especially if you live in south Florida where it's a very high percentage that Irma will hit the Keys and Miami, so it's supposed to hit that area first before making its way either up the east coast or the west coast of Florida. As you can see I know everything about this storm. It's like everyone in Florida is looking at it.

Again one of the biggest storms to hit so it is going to be interesting. I hope this storm flies out into the Atlanta which would be a best case scenario like Matthew did, which was at the very last minute. We evacuated here and it looked like it was going to hit probably until last six hours before it actually came here, seven hours before it finally just went 30 miles off coast, but if it was 30 miles in, forget it. A lot of stuff would have got wiped out. But it is crazy.

But moving on here, which is again a tough transition with this coming and you know all the seriousness here. I'm interviewing one of my favorite guests today. That's John Petrides, who's managing director and portfolio manager of Point View Wealth Management. He has over 15 years of experience in investment management. You've probably seen him all over financial TV, radio, CNBC, Bloomberg CNN World Business, Wall Street Journal Radio. It was great interviews, John, we go anywhere. And today we're going to cover a ton of stuff including North Korea and Hurricane Irma, two big current events that are shaking up a lot of sectors as you rebalance your portfolios as you should.

If you should ignore these, I mean if you know of other geopolitical risk and some other hurricanes you know a lot of times this stuff comes back; however, and particular stocks could get hit pretty hard. Write down a lot of sectors and give you some stock ideas. We're going to talk about oil and how to play this market which has fooled a lot of analysts including the both of us. We're going to share a few ideas to buy in an oil patch that are incredibly cheap and have huge growth potential. We're also going to talk about consumer staples. Interesting sector, right. Supposed to be a safe haven, yet these stocks have run up tremendously trading at historic high valuations but we just saw a big acquisitions in this sector over the past two months or so and the take over at super expensive prices which kind of begs the question, is a consumer staple sector not as expensive as most analysts believe, including myself.

You know trading at an historic high valuation but after these two acquisitions maybe some of these names have much more upside if the bigger players are willing to pay an incredible 20 times EBITDA. Don't worry if you're not familiar, I'm gonna break down EBITDA and why that's a crazy number to pay for almost any company. And finally John's going to break down Apple. The stock he's been dead right on the past three years telling you to sell it two years ago and shares crashed from 128 to under 100. And he purchased this stock for his clients at much cheaper levels earlier this year. So what do we have right, the iPhone 8, big news about to launch in the next few weeks. Should you buy Apple into this news or take your profits and sell on this big event, which is coming again just a couple weeks away. So great, great interview and you know what, let's get to that interview right now. John Petrides, thanks so much for coming back on the podcast.

John Petrides: Hey Frank, thanks for having me on.

Frank Curzio: Well, I love having you on because we can go anywhere and any place with this, and I want to start with one of the biggest topics in the market right now, which is North Korea.

John Petrides: Sure.

Frank Curzio: We see a lot of these situations happen. Should investors be worried? And when I say we see a lot of situations happen they usually turn out to be buying opportunities. Whenever you see these geopolitical risks out there I mean you know people wait for the markets to come down. We're seeing while people are buying gold, defense companies and even people out there are saying well maybe you should sell these companies and wait because

they're up so much because usually the market's going to turn. So what are your thoughts? Should investors really be concerned with this where they position their portfolios right, or is this something to say hey you know what, be a little patient and it's going to come up with another buying opportunity for you.

John Petrides: Well, I think when it comes to North Korea and geopolitical risk in general really since 9/11 that has to be a risk that's a part of anyone's portfolio at any point in time. It's always a given that's out there. You could read the 10-K of almost any publicly traded company, and they always list when you go to risk section, a geopolitical issue or terrorist issue that could disrupt corporate profitability.

So I think what investors need to learn from this is don't go chasing gold or the defense contractors now because of saber rattling and more heightened talk in regards to North Korea. You know that should be a portion of your diversification strategy going into it. So I think that I wouldn't chase gold here. I definitely would not chase the defense contractors here. And the worst trade of all I think is chasing treasuries at this point in time because the yield 10 years is just so low investors have running for the safety trade, that it really just isn't attractive, but the idea is when gold does sell off again and when treasuries do pull back, use that as a buying opportunity to rebalance your portfolio and diversify away from stocks to buy higher quality stuff. Buy the safety trade when the environment feels calm, right. So don't go chasing safety now, I guess. If you didn't have gold or treasuries in a portion of your portfolio now, don't run into it today is probably the best way I could describe it.

Frank Curzio: Don't run into it today, but say if investors and listeners they didn't buy gold and they didn't buy defense companies. Should they be selling anything or maybe saying hey, you know what, consumer staples is sometimes a safe haven and again that may have you know run up a little bit too with all the risk with North Korea and people seeking a safe haven well above a dividend. I mean what about selling certain things to readjust that portfolio or just say hey you know what, just sit here. Don't buy those things that usually do well because you probably might get a better opportunity, but you know some of them might say you know what, it might be a good time to take profits.

Because not only do we have North Korea here, you know another current event is Hurricane Irma that's definitely impacting airline stocks, cruise stocks. I mean you know, oil as well which you know it could hit Florida, we're still up in the air, Category Five,

but you know and I'm in Florida and we're making preparations just in case, but you know in that regards I mean is it say hey you know what guys, we always see these risks, this happens we go through hurricane season, we always see geopolitical risks or you know should they basically look to maybe lower their exposure to equities and stuff like that or it's not just about buying gold and defense.

John Petrides: Okay, so if you want to be on the balls of your feet here and be tactical in this environment, now and if you were on the right side of the trade and you own gold and you own treasuries that's the first place that I would be looking to sell off. Reduce your fixed income exposure, reduce your exposure to the safest parts of the market and I think you're right, go into the cyclical. Industrials have sold off quite sharply over the past couple of months. The energy trade I think it's very attractive here. I think energy stocks is the worst performing sector of the S&P 500 year to date. I think next to telecom the only negative sector year to date so I would use this opportunity to sell at the safest, buy some of the energy sector, some cyclicals, some of the higher data that the market is selling off in fear of volatility, in fear of what's on the geopolitical trade.

Frank Curzio: But John, let me as you this, and you may not know, but I'm just curious for my benefit I'd like to know because I was actually wrong in my call for oil where I saw fantastic valuations I looked at companies, restructure their debt when they don't have debt maturities for another five years. You have insiders buying at the fastest pace than I've seen since the credit crisis and yet even some of the stocks that I recommended to my subscribers went down 30, 40% before I recommended them and then wound up stopping out, that's how bad it is. To the point where I've never seen I would say at least in the last 10 years of the credit crisis valuations this compelling in this industry. Why are we seeing such a sell off, when oil prices if you look at oil prices they kind of stayed steady over the past four, five months around fifty bucks but yet oil stocks and oil services especially are down 25, 30%.

John Petrides: It's a good question. I think that when you look at the supply demand equation of the oil situation, I think that there's continued focus on the supply side and not enough focus on the demand side. Oil market is usually oversupplied, that's not any secret. The growth of increased supply has slowed relative to where we were probably 18 months ago. But the demand side is actually quite healthy. The global economy is doing well. China has rebounded quite strongly, so you know Europe's economy is turning around, so you know we are a bit baffled as to why the oil market or the

stocks have sold so aggressively.

You know listen oil was also ... energy was the best performing sector in 2016, so you clearly saw a rotation for the first couple months of the year selling out of energy adding to technology there was a rotation into international and I think a lot of that came at the expense of the oil companies. So you know I think longer term I think the price of oil is going to be higher than where it is today at $47 a barrel. So you know when you're playing oil you know trying to figure out the day to day movement is an impossible task and I think if you focus on those companies where their balance sheets are healthy, they have a diverse asset base, they're also exposed to oil and natural gas, not just one side of the commodity curve, I think longer term you're going to do okay, and you should do very well from a return standpoint given where today's valuations are.

Frank Curzio: And it's so funny because I love to see you use the word baffled and you're like well it's funny because I don't know the answer to that, that's why I asked you by the way. So I kind of put you on the spot with that question, but it's true because I also-

John Petrides: Frank, I've been on your program you know maybe three of the last four times on and I pitched BP, Conoco Phillips, and Helmerich & Payne. So if you look at charts of all of them with the exception of maybe BP on a price chart they've all gotten slaughtered. If you want to back into dividend we've done a little bit better, but it's not been good, but all those companies you know are really in the catbird seat from a competitive position relative to their peers, particularly Conoco Phillips continues to sell off so much of its non-core assets and they're using all of that cash to retire debt and to buy back stock and to really position itself for the future.

You know I looked at Conoco Phillips came into this year looking to sell five to eight billion dollars of assets and they've done something like $15 billion already. You know I'm not a Yankee fan, but I'm in the New Jersey area and my kid is a Yankee fan but it kind of looks like what the Yankees did at the end of last year when they got rid of their high price players and they got all of these young prospects to beef up their minor league system and you know they may not be playing for the short term, but in the long term they're in a really strong position and that's how I view what Conoco in particular has done with their assets year to date.

Frank Curzio: Yeah, and that's why you're one of my favorite guests, John, even the guests as well that you know my listeners is because you know look, we don't always get things right and you have so

many winners that you've given my audience and you know for you to bring up that just shows what kind of person you are and that's why I like you so much, but also for me when I look at oil companies where I said okay, I know oil prices are not going to go lower or they can. Every time they go lower we see huge recounts come off the market in every single area in the US except for the Permian. For the Permian we can't scale, that can't be the only source. You know it accounts for 3% of all production. So getting it right on oil price like you said you look at these asset sales even more you thought the stock would do better.

For me I'm like okay, here's a trend that's been this way for like three years, so oil services usually follow oil prices and there's a complete disconnection all of a sudden. I don't if that's from certain funds which I know at least two funds that did blow up in the oil sector with a billion dollar funds maybe they're for selling but I do know this guys and John's right, you just said it. It's more compelling today, it could go lower of course you may want to wait for an uptrend, but the valuations that I'm seeing the way these companies are going to report very, very strong profits because they operate in the Permian, some areas where they could produce at a really cheap price. Their stock price is just a big disconnect there. I know it's going to be an opportunity. I was wrong on the timing, but it is coming and I just know it's worth keeping some these names on your list I guess, right?

John Petrides: Yeah I mean listen, when it comes to commodities, and it could be oil, steel, copper, whatever it is, anyone who claims to find the bottom or sell at the top is lucky or they're lying. You know it's really an impossible task to do because no one knows what the day to day future is, you know what the day to day movement is of that commodity, but when you're making an investment and particularly I think this is a good lesson for those listeners Frank that are fairly new to investing is you have to understand when you're buying a stock or building up your portfolio or whether it's retiring you're looking at investing your 401k or taxable account, what's your time horizon of those assets.

You know if you're married and you're looking to buy a house three months from now and you're going to use the majority of your cash to buy that house, well guess what, you shouldn't have you know a large exposure to oil, right? It's just way too volatile. But if you're thinking about hey, you know I don't need this money for the next three to five years well then energy is an attractive investment opportunity here across a diversified portfolio.

So whenever you're making an investment decision you know

one of the factors is what's your time horizon and what's your risk tolerance rather than you know for that cash flow. If you're thinking about you know it's well over less than four months you know since John pitched Conoco, the stock has been a dog. Well I'm personally not buying Conoco for the next four months. I think they're setting themselves up for what I think could be a really long term strong competitive position for the next three to five years. So I think that is the important point of hey, did we get it right or wrong. As Ben Graham, the father of Value Investing who was Warren Buffett's mentor once said, you know, "In the short term stock is a voting machine, in the long term it's a weighing machine."

Frank Curzio: Yeah, that definitely makes sense and you know it's going to go right into this next segment too because I wanted to talk to you about growth and value, something that you've been writing about lately right when you talked about oil with this, but you know you're looking at the Russell 1000 growth index up around 16, 15, 16% year to date and you're looking at the Russell 1000 value is up only 4% and you know, you had like a recent Barron's article where everyone's chasing growth and it seems like even when you looking at the FANG stocks right, these are the companies that are really you know outpacing the markets, keeping the markets at these levels where you're seeing, at least I'm seeing a lot of small caps I'm sure you're seeing it as well, where we are a lot of these stocks are sudden get killed, especially if they report you know just a slight miss on earnings they're falling 10, 15, 20%.

Anyway is it time to really buy value here because it's been so out of favor for these growth stocks, but what's your opinion when it comes to value and growth because for me it's kind of like I want both. I want value with some kind of growth catalyst, but it just seems like some of these value plays are trading at levels that just like the oil stocks are basically you can lump them in that value camp.

John Petrides: So we're all cap managers and although we lean toward value based investing we are really style agnostic. I mean if we can find a company that can grow you know 100% earnings over the next three years and it's trading at a PE, at a price earnings multiple that are a slight premium to the market, well the typical value investor may not go for that because it's expensive relative to the market, but the long term, but the growth rate looks pretty attractive.

So we don't invest towards growth versus value, what we try to do is find a great company with a strong balance sheet in a strong competitive position that is for some reason in the short term

trading at a discount, it's trading off from what we think it's long term cash flow is. Whether that's growth or value, it doesn't really matter to us. The idea is we want to buy a strong company with strong cash flow that is cheap. You know I've said this in the past, we want to buy a Ferrari but we want to pay for it with like the price of a Ford Focus. You know we want to buy that fast growing, that sleek, that really powerful car, but we don't want to pay $100,000 for it like we would a Ferrari or $400,000 or whatever the cost, sticker price is. We want to buy it at a discount when for whatever reason Ferrari's are out of favor.

So you know we try to be agnostic to style and you know right now you mentioned the tech sector and the FANG stocks in particular, which are driving the market you know are getting pricey from a valuation standpoint and we find that when I mention energy space before and even some of the consumer cyclical stocks you will find these strong high quality companies that for whatever reason are really out of favor and in we think over time we're going to be rewarded for it.

Frank Curzio: Well, let me ask you this, which is kind of a tough question, but I think you're going to have a great explanation for this so I'm asking. Can you explain to the audience where I think when they hear value I think so many people think okay well buying stocks are down 30% where you know could see oil like we just mentioned, telecom's down, even gold which is obviously coming back you know. with North Korea and stuff like that over the past month or two is trading actually high, but you know it's still down tremendously over the past couple of years.

Could you explain why when it comes to value, it doesn't necessarily mean you're buying stocks are down 30% because you could have companies even in technology or even in the banking sector where you see their stock move up 100% but those earnings are growing so fast where these stocks are still significantly cheap, at least some names. Could you explain that system? Because I think a lot of people when they hear value they think right away all right what's the most under performing sectors, when you could get a lot of value in sectors that are up a lot.

John Petrides: Yeah, you have to be the great story of that and I think everyone can relate to it and I still don't think it's cheap enough yet, but it's definitely become significantly more interesting is Under Armour, right. Under Armour was the quintessential growth stock. I mean this stock was you know people were calling you know it's a technology company not an apparel company, and how they design is their product and they came out of the sneaker

market and it's the one retailer that's growing really strong, and it's growing it top lines and it's growing it's earned, its bottom line and the stock was trading at you know 50 times forward earnings from a price to earnings standpoint.

And now Under Armour is down to like $15. You're seeing the retailer's just getting crushed. The stock has really lost its or the company has lost some cache in terms of its branding and you've had some of its NBA players turn it's back on the company and now the stock is down to 15, 15.50 a share. You seen what happened to Foot Locker and Finish Line. Some of the in mall sneaker and apparel retailers for athletic wear just getting slaughtered. And Under Armour has been a part of that, but the stock is still trading at like 30 times earnings, so even though it went down a lot I think earnings could come down further and I'm still not willing to pay up from a multiple for a company like that just yet. But here's a stock where yes it's all significant, maybe down I don't know 50, 60% over the last twelve months or something like that and I still think it's expensive from a valuation standpoint. Does that answer your question?

Frank Curzio: Yeah, that's great the way you put it because you can also go with Chipotle too, which again this is a high growth company and yet you know we saw another incident where it went viral with rats in the ceiling and stuff and I think people were just like okay, enough's enough and again the company was making its way back past 400, 420 whatever back down to 300, people say wow, what was it whatever 600 or 700 at one time. At 300 down as much as it is, it's trading at 30 times forward earnings.

John Petrides: [crosstalk 00:26:41].

Frank Curzio: You know you look at that you take away that growth component and it's still scary.

John Petrides: For a company, I think Chipotle is another great example where you know they've had a lot of growth and there's loyalty from their customer base, but the substitution effect for Chipotle and for Under Armour is still so high. You know Frank, when I go out for lunch I don't have to go to Chipotle and buy a burrito. I can go get a slice of pizza, I can go to the diner, I can go to Subway. You know, there's ... I can bring my own lunch. You know there's so many substitutions, there's a million places where you can eat. You don't have to go there.

Same with Under Armour. I don't want to spend $35 for a shirt

that I'm gonna sweat in on the treadmill. Well, I just got a free T-shirt yesterday when I was at the Yankee game. They shot one to me in the crowd, you see what I mean? The substitution effect for the apparel and for the food is so high there's no reason why I have to go there, so you know when I see those type of stocks, when the barriers to entry are so low into that industry you know I need the stock to be very compelling or as Warren Buffett would say, my margin of safety has to be very high and my downside risk has ... or my upside potential has to be significantly greater than my downside risk for me to get more interesting. And that's probably the best way to describe value investing is that what is your downside compared to your upside. Forget what the stock has done. The stock's down 50%, forget that. If you bought it today is your upside more compelling than your downside. That's the question that you have to ask yourself.

Frank Curzio: Yeah, and being at the Yankee game I guess we can put it in perspective when you're looking at Aaron Judge. I mean is that a value story or a growth story, because he's definitely a lot cheaper than he was about three month, two months ago.

John Petrides: Yeah, that's right. That's exactly right.

Frank Curzio: That's funny. Anyway but .... So once again we're talking with John Petrides. He's managing director and portfolio manager at Point View Wealth Management. Talk a little bit more because some of that you've been writing about is M&A in the consumer staple sector. I mean here's a very expensive sector, where the Amazon Whole Foods merger, which you all know about and that's been beaten to death every place, but also you talk about an interesting story, which not too many people know about which is McCormick and how they paid 20 times EBITDA for a company called Reckitt Benckiser, which is a food division and again I'll let you explain it, but the valuations are so high here.

Do you continue seeing M&A in the consumer staple sector, because if you do it makes me think that hey you know what, maybe some of these names even though they kind of trade at all time high valuations based on historical levels most of the trading you know had in twenty times forward earnings. You know is this a sector where hey you know what, okay it's still a safe haven even though it seems like it's more expensive maybe than the North Korea thing or whatever, but if you have that M&A component you seen these guys get taken off of these prices it might be worth it to keep some of your money there.

John Petrides: Right. So I think that the consumer staples, the consumer defenses

sector is really, really interesting here. You know one angle with the Amazon Whole Foods merger and if you look at all the grocery stores obviously we discussed this in the past with Kroger Walmart, even Costco, any big box food place has gotten crushed the moment that Amazon sneezes, price cuts within this deal and I think the one area that's going to be under a lot of pressure is those big cap branded companies. So think of like Tide with Procter & Gamble or you know any big brand that has always dominated shelf space within Walmart or Kroger and they have basically because the popularity of the brands have always gotten key shelf space.

Well, when you're dealing with Amazon and Whole Foods and if the future is that the majority of us are ordering our groceries online, which is through Amazon Prime which is what the market to me is pricing in, which I don't necessarily agree is going to happen, but you know if that's where the future of shelf space is infinite, right. It's not like Frank, if you and I wanted to come out there and make a chemical free detergent that worked really well and we were able to convince Whole Foods and Amazon to sell it through their distribution, well then we could do that. We don't have to compete with shelf space against the behemoths like Proctor & Gamble and Kimberly Clark and all these others to get on the shelf of the grocery food store. The shelf space is infinite.

So I think those big brands are going to be under a lot of pressure. So the way I see it is you're going to have this land grab for all these big brands. Look at you know McCormick is the consummate season and spice company, right? Everyone listening to the podcast probably has some sort of McCormick spice in their pantry; whether it's basil or oregano, cloves, whatever it is, right? McCormick went out and paid $4 billion dollars, 20 times EBITDA, which is a very expensive multiple by the way, for Reckitt Benckiser's food business. So they bought like the brand like French's mustard and other very well known brands, but that's not their business. Their business is spices. So what are they doing?

I think they're getting very scared by the Amazon Whole Foods merger and I think they're saying wow, if Whole Foods can sell you know 365 brand basil and 365 brand oregano for $1.50, we can't compete with that and that's very easy. You could buy that selling a spice and buying it online and having it delivered to your house is very easy to do. There's no specialty packaging that needs to be done. So I saw McCormick pay up from a survival standpoint and you're going to see a battle by all these big companies in my opinion over shelf space at Kroger and Walmart. So the consumer

staple business, the scepter as I see it is going to be under a lot of competitive pressure and I think you're going to see a lot of M&A from the bigger companies looking to acquire more brands to be more relevant to those consumers who within the supermarket, within the big box.

Ad when you have players like 3G Capital out of Brazil along with Warren Buffett doing mega deals like Kraft Heinz, and they tried to buy Unilever you know and there's a lot of companies out there that own a lot of brands. Maybe they want to sell off non-core assets. So I think that you're going to see tremendous amount of activity, consolidation, mergers and acquisitions within that space, and I think that it's the big cat guys are going to have to acquire more or be acquired. Maybe they just throw in the towel and sell themselves to 3G in order to compete in the future.

Frank Curzio: Yeah, and it is interesting. I mean we've seen this trend go on for a long time, but within the grocers I mean this has to be a positive for them when you know like again Whole Foods got taken over. If you look at Trader Joe's or even like the Walmart's and Target's right. Because when you go to a supermarket they're selling Frosted Flakes for $3.50 a box, you know that especially Walmart and Target squeezed the hell out of it. I think it's Kellogg's that makes it right, not Post, but Kellogg's and then not only they squeeze into making profits on it, but they turn around and manufacture their own version of Frosted Flakes and sell it for $2 a box right next to it.

It seems like you know I mean consumer staples I mean that's something you have to think about with them too, because almost everything they sell that are on those shelves you always see a cheaper version made by the company, and when I see these companies trading at 20 times plus valuations when they're usually trading at 13, 14, 15 without that growth it is kind of scary to see it. So it is interesting to see all the M&A I guess in that activity, but what are your thoughts on that? I mean this is a trend that we've seen for a while, but now I think it just comes a little bit more to the forefront after the acquisition with Amazon and Whole Foods.

John Petrides: Yeah I think that's right. I think that just puts more pressure on the accelerator for more deals to get done. That's what I think the Amazon Whole Foods merger has done to this space. You know you've seen all these big guys have been merging to grow because they can't do it organically on their own for quite some time or they've been divesting brands to unlock shareholder value to push up their stock price because they've become so big that large, large numbers have kicked in, that they need to figure out something to

return value to shareholders.

But again, the McCormick deal was so striking to me because here's a company that has a position within the supermarket but it's going into a completely different segment in terms of other types of goods away from spices and seasonings and they're paying 20 times EBITDA. Now, EBITDA is defined as earnings before interest, taxes, depreciation, amortization. And the way I think of EBITDA is, let's say you own a small business. Let's say you own a barbershop right, and you know every month because you know people's hair grows back and your customer's going to come in to get their hair cut. What is that business worth? Well if you sold your business for twenty times EBITDA, that means you get 20 years of cash flow essentially paid up front.

Well that's what McCormick did essentially with this business unit. So they paid for essentially 20 years of profitability, so they must know one or two things. That they can strip out significant amount of cost so they get a higher return on investment, or they did it because it's going to be a stopgap to provide some profitability because they're going to lose their competitive position with Amazon Whole Foods. So now the question is that 20 times EBITDA, does the entire space re-rate higher. Does that now when you know the you know the Lazard mergers and acquisition teams goes into Unilever and says hey, you know McCormick just paid 20 times for this unit, maybe you should look to Procter & Gamble and look to sell this. You guys could get 22 times, you know what I mean? So there's a whole space re-rate higher because of that.

It's kind of like you know Frank, we're in the middle of fantasy football draft season right now. Two years ago you know Brock Osweiler was the backup quarterback for the Broncos. The guy played eight games and the Houston Texans paid him $18 million dollars for one year to play the season, well now the entire quarterback space you know the market goes higher simply because Brock Osweiler got $18 million dollars for a contract. Same exact concept here. You pay twenty times multiple for this one business unit. The whole space should re-rate higher.

Frank Curzio: Yeah remember guys, John said EBITDA. I mean it's not earnings and just to put this in perspective I think if 20 times EBITDA is insane to the point where-

John Petrides: [crosstalk 00:37:28].

Frank Curzio: I'm just throwing out a number out there, and I would say based on an educated guess here that if you paid 20 times EBITDA

for Under Armour you'd probably be paying more than 150% premium right now.

John Petrides: That's right.

Frank Curzio: That's how expensive that is. I mean if I had to guess it's probably more than that, but it's insanely high premium, a lot higher than what you ... And again if you have that growth behind it, right John, you know that multiple is justified sometimes and you know again, when Facebook purchased Instagram, I mean that there was nothing right and then next thing you know they purchased it for $2 billion, that's $40 billion.

John Petrides: You know how much French's mustard does my family go through a year? Maybe one.

Frank Curzio: Exactly.

John Petrides: So it's not like you know it's not like they're buying this high growth category. It's all stuff that's sitting in your pantry already that you may restock once a year.

Frank Curzio: Yes, and that's a multiple you usually see like in technology or high growth.

John Petrides: That's right. That's exactly right.

Frank Curzio: Speaking of technology here and I guess maybe we'll finish with this. We've talked about Apple in the past. We were both conservative on it and said hey you know what, you have to watch out, and you know for me I changed my tune, I think you changed your tune as well especially when Samsung dropped the ball and decided to create phones to catch on fire and eliminated the main competitor out of the market it was a totally different ballgame. We're back to a position where Apple's about to release their new iPhone. It's still relatively an iPhone company right, I mean even though their service division is growing fast, but when you look at the numbers it's more than 65% still you know is the profits generated from the iPhone. W

hat are your thoughts heading into this where expectations are sky high with Apple still trading just probably two or three points off of the tie or its all time high that we know how much cash they have with $200 billion, but for me when I see a phone like this are people really ... And I say this you know we could say this every time with every phone. But people are going to pay a

thousand dollars, $1,100 for this type of phone, are they going to be able to keep these types of margins, which is unprecedented in anything technology where prices usually come down, the fact that they continue to raise prices on this iPhones is amazing, but should people be worried about Apple? Because it seems like to me they're complacent. They're like, just buy Apple. You got nice dividends, it's going to be fine and they have $200 billion in cash.

John Petrides: Yeah, so it's a good question. You know the first time I was on your show I killed Apple. I was very bearish on the watch. That was at least-

Frank Curzio: You're right.

John Petrides: ... two years ago in the summer of '15 and I was very bearish on the watch, 'til around the same time and you've have the same comment. Once the Samsung phone blew up it was game, set, match, and that was a huge window of opportunity for Apple because if you remember the Galaxy 7 was a significantly better phone than the iPhone 7. iPhone 7 was a path to get us to where we are today with Apple. So I think Apple really dodged a bullet there. So I own Apple personally. We own it for clients. I bought it after the ... again the Galaxy phone blew up. I still own it. I probably wouldn't chase Apple here but I still think there is some runway with the stock and I'll tell you the difference of why that is today versus where we were two years ago.

First of all, I think you know the augmented reality apps that will be coming out on the new iPhone and the power with that is going to be a new step up for the company that's a new experience for the end user. I think the fact that Apple has publicly announced they're going to be spending a billion dollars worth of TV content to build out the Apple TV to compete with Amazon and Netflix and others, I think that's a big deal because again now they're really committing more money toward services. Yes it's still an iPhone based company, but they're starting to move in a direction where they're committing significantly more resources to build up the service unit.

I still think Apple should be charging you know all of us $30 annually to get access to unlimited streaming, unlimited data storage, you know whatever bells and whistles they want to tack onto that and charge us like Amazon Prime or like a utility company. So you know every two years or so they can increase that monthly fee you know, a dollar, two dollars, something like that, so they get that recurring revenue coming in and we're not stuck all the time on the iPhone upgrade cycle. So I think what I

like about Apple today versus two years ago is they finally have embraced the services significantly more than they are. They're embracing the power of the Apple TV and they're trying to build content.

Now who know if that content is going to be any good. You know if you look at Viacom today and all of their content that they have and they can't turn any of it around. You know content, you know Time Warner doing Game of Thrones off the back of Sopranos and all of the other top shows that they've done is very hard to do. It's not easy to do that, but I like the fact that they're actually moving in that direction and they're trying to de-emphasize the hardware portion of their underlying business. So I'm not ... You know I mean I'm skeptical of chasing Apple here. The stock's up what, 50% over the last you know 12 months, but at the same time I'm not ready to jump off ship just yet.

Frank Curzio: No, it definitely makes sense, and just to be clear guys, I mean you look at the stock and say wow it's 160 and you were saying to sell it. I remember when you came on too, because we gotta be fair because you did point out of a couple of the oil stocks, but you were dead on with that call. I mean you basically it was like 125, 127 Apple fell below 100 and you know for me and we talked about this on a podcast back then, for me the bearishness stem from 97% of the analysts covering the stock, it was over 50 sell side analysts.

John Petrides: Yes, exactly.

Frank Curzio: Had strong buy ratings, crazy targets. And they were factoring in 25% percent growth in earnings and I knew that was no way going to happen. They're only growing earnings by 11% today. It actually came down to the point where they had zero view negative growth in earnings and we saw that stock get crushed, and the Samsung thing happened, man, what a catalyst and now we're into iPhone. So it is going to be interesting to see what Apple's going to do here, but it's almost like the same timing from two years ago, but I'm not seeing any $200 price targets on Apple now. I mean they're bullish, but I'm not seeing any crazy forecasts, are you? I think it's kind of like you know the sentiment isn't as strong as it was back then, at least from my perspective.

John Petrides: No, you know, in terms of buying the individual stock or selling the individual stock, you know what I would caution the audience to do is if you own a 401k or if you own a mutual fund or an index fund or something like that in your own personal account rather than digital stocks, I'll guarantee you, you'll have a lot of exposure

to Apple. You know Apple is like 16% of the Nasdaq because most of these index funds are market capped based, which means the higher the market cap, the higher the value of the stock of the company. The higher the percentage, the weight is within the index. So if you gathered all of your mutual funds together or your index funds together you're there with Apple, I'll guarantee that.

So be careful you know if you're looking to buy more Apple or sell more Apple, just you know have an idea within your own portfolio as to how much exposure to Apple you already have because I'll guarantee you it's very, very high. You know Frank another comment too in terms of the index, you know many people say oh, well you know I'll just buy the Vanguard S&P 500 index. That'll give me exposure to market in a low cost way and you know we'll set it and forget it. Well I can tell you, if we sit down, we equally weigh the sectors for our clients and their portfolio okay and we basically we get their return based on their financial goals and objectives and basically asset allocating between stocks and bonds and doing individual research on the stocks to find undervalued companies.

If I were to tell a client that hey, we're going to put 25% of your assets in energy today because we've got a really bullish call on energy, guess what? The client is going to walk out of the meeting saying two things; they better be right, or this is going to be a really short party. Right now 25% of the S&P 500 index is in technology, right? So when you're buying the S&P 500 index fund, 25% of it is in one sector. That is not diversification. That is a concentrated bet on a play right now where the market feels like they can't find growth and earnings anywhere else except one sector. That's an issue. Go back to 2008. Energy was 19% of the S&P 500. Go back to 2007, right before the subprime crisis. Financials were 26% of the S&P 500. I'm not suggesting we're in a dot com bubble. I'm not suggesting we're in a tech bubble. What I'm saying is if you simply just go out there and buy the ETF, buy an index fund, you have a concentrated bet toward technology today and you need to be aware of that.

Frank Curzio: Yeah, and you bring up a good point, and we'll end on this. Where even your 401k guys a lot of times when people get their 401k's when they start a new job or they been in a job, I mean it's rare that I see at least from the people that I hear from where they basically look at their allocation and a lot of times when you get it you're like oh, I'll just put 15 ... They have a percentage and you have to add up to 100 and you'll say yeah, I'll have this in a growth fund and I'll put this whatever, in a Janus fund and in a Vanguard fund, and you don't realize that you're buying Apple four different

times.

John Petrides: Yeah, that's right.

Frank Curzio: And then you're buying it in your personal account just like you said, right. So you probably have more exposure to Apple and also the FAANG stocks for that matter than what you think, but it's interesting you should check that out right with your 401k I'm sure that's right up your alley managing money and stuff like that, so I know that's great advice that you've given, but I'm sure you get that as well, right?

John Petrides: It in terms of the amount of exposure people have to wait-

Frank Curzio: Just when clients come to you and you're managing your clients, I'm sure when they give you a portfolio. You can just look at them and be like okay here. You can really see that you have so much exposure, right.

John Petrides: When we work with clients and we look at how they're currently positioned, we open up all of their mutual funds and all of their ETF's and we do an analysis to just show them hey, you know you're diversified across these 10 mutual funds. You know and they feel all good about themselves because they have so much diversification. Well guess what? When we open up all the stocks it turns out they own 5,000 securities, Johnson & Johnson is in nine of the ten funds that they own, and when you have 5,000 securities guess what, you're not really that diversified, because you own everything. So you know where are you going? And oh, and by the way the mutual funds that you own, you're getting charged one and a quarter, one and a half percent for that.

So you know I think some people get moored over by or I think they have a perception that they're really diversified when they own so many mutual funds, but the fact is they have significantly more overlap than they realize and when the FANGs, you know those six stocks and you want to include Microsoft in there within that acronym, they're driving 50% of the returns in the S&P 500. I think most investors have a lot of exposure just by default to those six stocks and you know that's not really diversification. When six stocks are driving an index of 500 and 50% of the returns of the 500 index, you know what are the 494 stocks doing?

Frank Curzio: It definitely makes sense. Well, listen a lot of people either they hear you on the podcast, they know where you, work but you do write a lot. which I'm sure a lot of people aren't familiar with and a lot of those stories are really cool and I love having you come

on and go over a lot of that stuff. This is stuff that I'm pulling from your website, but if someone wants to get in touch one of my listeners to read more about what you're writing, how can they do that?

John Petrides: Yeah, thanks Frank. So you can follow me at J_Petrides. I'm on Twitter. You can also find us our website is our company is Point View Wealth Management. You can find us at ptview.com. That's Paul Tom Victor Ingrid Edward Walter dot com. I'm going to be publishing a commentary in the next couple of days. We just finished the 10 year anniversary of their initial rumblings of the subprime crisis at the Bear Stearns hedge funds in August of 2007, and I was at Bear Stearns at the time in their asset management meeting while that was happening and I guess Frank that's probably a conversation on another podcast and we should have a couple of beers with those too, because we had some stories to tell.

But you know over the next year you're going to hear oh, 10 years from when Bear was taken over by J.P. Morgan, 10 years when Lehman Brothers was taken over, 10 years after the Bernie Madoff scandal. You know the amazing part of all that is how many investors panicked during that time and got out and listen it was scary times, but here we are 10 years later when we were on the brink of financial collapse, and the market's up what 250% since then, since the March bottom. So lessons to be learned is you know don't panic when the market goes down and use that as a buying opportunity.

Frank Curzio: Yeah, and it's funny you say too.

John Petrides: That's the new commentary that's coming out over the next couple days.

Frank Curzio: That worked out great for us to use because as I say I love having John on because he'll send me a couple of topics and things that I saw that he wrote and everything and one of the things was this you know you were actually working at Bear Stearns when this happened, so you created like a 10 years later thing and we have that as one of the topics to talk about but we're so used to doing this that whenever we come on something interesting I'll just stay on that. We didn't mention it, but that turns out to be an excellent tease as to why they should go to your site and take a look at that because we didn't get a chance to get that today and my apologies, but I'm also interested in reading that as well, man, so I appreciate it.

And listen I know my audience loves you. You're real as could be. You talk about your winners and you talk about your losers. You've helped them and I know how much money that you helped generate for them through those winners and I really appreciate you coming on and I know they do too, so thanks so much for taking the time, buddy.

John Petrides: Thanks for having me on Frank, really appreciate it.

Frank Curzio: All right, great stuff. I love John, and I have to tell you something. I interview a lot of analysts, hedge fund managers, market experts, as you guys know. The best are the ones that actually highlight their losers. Not that they have a lot of them, but the losers kind of pissed them off so much they always want to figure out what they did wrong and how to get better.

And we all have these types of investments right? Even some of the greatest analysts, fund managers in the world you can go to Buffett, Ackman, Bill Gross, Einhorn, Paulson, Icon. I know it's difficult to believe, Frank Curzio as well. Very hard to believe. But in all seriousness I respect guys that come on and say hey you know what, I got this one wrong, here's what we're going to do about it and here's what we learned from this mistake. And if you notice something about that interview with John, he mentioned his bad call on some of the oil stocks, but when I mentioned Apple he didn't oh, that, I nailed that one though. I actually had to point that out for him which is you know kind of cool I think.

But from my experience the best analysts in this business are always the ones that are humble and they focus on the losers or should I say the losers bother them a lot more than the satisfaction they get from picking winners. I mean, a good analogy would be for Texas Hold'em professionals and most pros don't talk about the millions of dollars they made over the years playing professional poker, but they remember every bad hand they played in every bad beat and they kind of use that as motivation to get better the next time they play.

And I don't want you to mistake humble for not being confident about being great their job either, there's a huge difference. Is just when it comes to analysts and their track records the ones with the best track records are not these arrogant guys who like hey I told you so and I'm right. I mean you know there's a lot of guys that I've interviewed again I've been doing this for a very long time. Stephanie Link, Michael Alkin, John Petrides, who we just heard from, Steve Komar, again a lot of others that I've interviewed. It's like they're on this impossible mission to be perfect because we

know we can't always pick winners every single time and they never rest until they achieve that goal, which is pretty cool.

I can tell you as someone who's been doing this for over 20 years, which is like an old man now, those are the guys you want to listen to in this business. Those are the ones that are going to make you money which is what this is all about. Not the guys on TV always talking about their winners when you know their track records for picking stocks and also their market calls like the ones calling for a what 40% correction every single year since 2010, I won't mention any names, but in the meantime the S&P 500 is up what 240%. But those guys are downright terrible, yet you see them on TV all the time.

When it comes to these guys and being humble and just focusing on trying to always get better I mean for me who's again someone who's been doing this for a long time interviewing people it just seems like those are the best analysts, those are the best track records based on my research and what I do for these guys and those are the people I try to put in front of you because again it's about making money. It's not about telling you a fantastic story, oh, this is awesome and then you lose you know 80% on all the stocks they recommend. It's more about hey here's a story, here's what you need to know, here's what you need to avoid, and here is what we could do where you can limit your risk if we're wrong, but if we're right you have huge upside. Those are the people that I really like to put in front of you. Again this podcast is about you, not about me. Let me know what you thought at frank@curzioresearch.com. That's frank@curzioresearch.com.

Hey guys next week I'll get back to the original format where I provide an educational segment for you, try to help you become better investors. We'll talk with some really cool guests who will be doing an interview from New York at a prestigious conference. In fact, he has two presentations at this well known small cap conference, but he's going to take 30 minutes in between these presentations to come on and do an interview and talk about his company. Be sure to tune in next week. It's going to be a really cool podcast. I promise.

And guys last thing here, be sure to check out my Facebook page, Curzio Research. Check out my studio next week to do videos, very busy. Hopefully my house is still gonna be here. I'm not even joking when I say that. May try a few live podcasts, probably start with Frankly Speaking, which I tape every Friday and then work on Wall Street Unplugged, which is a little more difficult. You know it's a Wednesday podcast. Frankly Speaking is you know tape it every

Friday. On Wednesday podcast where I interview you know some of the smartest analyst in the world, it's difficult to really get timing on those interviews where a lot of my guests, including the one on next week are usually on the road and I could tape them on Monday, Tuesday, sometimes Wednesday, but it's hard for these guests to be available at exactly 5 p.m. every Wednesday to do the Wednesday Wall Street Unplugged live.

Again, these guys are experts. They're in the field speaking at conferences, traveling the world to meet their largest investors. They're not sitting behind a desk saying sure Frank, whatever you need. That's not the guys that I'm interviewing here. Usually these guys are on the road when I interview them. So I'm going to try to do a couple live ones but I gotta m make sure they're able to do it by around 5 p.m. Wednesday. It should be really, really cool. But live videos, live podcasts are coming soon. We should definitely be up and running hopefully by next month. Should be definitely by next month.

Be sure to check out the new Curzio Research Facebook page. A lot of those videos are going to be there. We also offer a lot of free stuff, free research reports. Our weekly breakdown report, which is where we take the five to ten best stock stories of the week from anywhere, from all over that we happen to read, not just at Curzio Research. You can read all the stories for free in one place and we post that on the Facebook page as well. It's some really cool stuff, be sure to visit us on Facebook, take a closer look at the new Curzio Research page.

And a final note for everyone living in Florida, it's a huge storm, it's still up in the air in terms of where it will hit. It doesn't look good for south Florida as of now, so guys please be safe. I'm not the most religious guy, but I will be praying for you and hope all is okay. Guys, that's it for me. Thank you so much for listening. I'll see you in seven days. Take care.