Frank Curzio's WALL STREET UNPLUGGED

Announcer: Wall Street Unplugged looks beyond the regular headlines heard on mainstream financial media to bring you unscripted interviews, and breaking commentary direct from Wall Street right to you on Main Street

Frank Curzio: How's it going out there? It's Thursday April 12th. 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. So my water heater in my house broke a few days ago. I had no hot water, the tank started leaking water into my garage, and like most leaks it got worse with each passing hour. It was my first experience with water heaters so I did a normal thing, I called the number on the water heater that said, "Have problems with this water heater? Call this number". Look, you may think I'm smart when it comes to analyzing stocks and things like that. It doesn't mean I know everything about anything right? I'm just a normal guy. So, I call the number and it's Sears.

That's the first red flag. Since this is a water heater purchased by the previous owner of my house, it's over eight years old, and since then there are barely any Sears stores around anymore. So red flag number 1. So the lady gets on the phone with me, I give her the product number which is on the tag, she says she is going to have a guy come over tomorrow to take a look. I said is there any way you could do it today? Because it's leaking a lot, it's getting worse. The earliest we can do is tomorrow. I said fine. So the lady asks me for my credit card. She said, "Hey, it's going to cost $79.00 to get a guy out to you."

That's the second red flag. Now, I asked her, do I have to pay really before the guy shows up? Because this is Florida, and there's one certainty I realize living in Florida, it's a guarantee, you never ever ever ever ever ever ever pay someone before the job is done because you will never ever ever ever see that person ever again. It's true. It's in the Florida handbook for the home repairs by people you don't know. But, it happens every time. It's a guarantee. So she says, "Sorry, but you are going to have to pay now. I can't send the guy out to you unless you pay." So I have leaking water heater that's broken, I have no choice. Okay, here is my credit

card. There you go. Fine. Just for me, I'm hoping the experience is going to be different from my previous 20 when it comes to people working on my house.

So I talked to my wife, she is able to meet the guy at the house since I'm working. I give her a call, and the lady told me that the guy coming is going to be there between 8:00 a.m. and 2:00 p.m., which is like saying, "Hey, we hope you have no life and stay at home during peak working hours every day." Not a two, three hour period. 8:00 a.m.-2:00 p.m. Alright, I will do everything I can to be home. It's not a problem. I also asked the lady if the guy could give me a call before they come because listen, my wife is a busy woman, and may have to run out here or there. This way she wants to make sure she is home. Maybe he can call when he's 20 minutes from the house. She's like, "Sure, no problem." So, I wind up giving her my credit card. Just before I hang up with this lady she tells me, "Oh, by the way, great news! You just qualified for a free in home inspection which includes floors and windows.

That's red flag number three. I'm getting pitched by a customer service lady who didn't even call the guy yet to come to my home with my water heater spilling water into my garage, and she's pitching me. I was like, "Lady, just fix my freaking water heater. It's leaking." She's like, "Okay, Okay. Wait, you also qualify for.." Before she says another word and another sales pitch I said, "Listen, I'm going to hang up on you in about three seconds. I need someone to come to my house immediately. Please come to my house. Call the guy. Maybe he can come today. If not, he's going to come the following day." She said, "It's going to come tomorrow." I'm hoping that maybe they can get some guy to come earlier than that. She's pitching me, and I'm really getting pissed off.

So anyway, they don't get anyone out to my house the first day, so the second day they come. And he shows up at 1:00 p.m. So of course, he doesn't call before he shows up like they said they were going to do. The guy walks in, says hello to my wife, looks at the water heater, says it's broken then leaves. That's my fault right? I'm the idiot. I should have known better because it's completely normal in Florida. The guy got paid already. He may have actually paid his friend $20.00 to take his truck to my house while he watches the Price is Right or something like that. Hey, just tell him it's broken and leave. That's kind of what I would do, right? Because I live in Florida. That's how people do business here. It's a culture. Why don't I join it? The one good thing the guy did do is he called a number to the warranty department, and they got back to my later that day and said, "Hey, good news! Your heater is covered by two more years. It's basically a ten year warranty."

Again, we've had this house for about seven, eight years. The only thing we need is the receipt. I said sure, you need the receipt. I got it in my back pocket. Wow, how lucky I am. Who gives the receipt of every appliance that they bought from the previous home owner? I have the inspection, which has pictures of it, and showing that hey here it is. I just gave you the model number. Have one of your guys come over and verify that it's in my house so you know it's there. But they said, "We can't honor that warranty unless we have the receipt." Obviously I don't have the receipt. I don't know anyone who has receipts of appliances or anything else. Usually you take pictures, you list them all in the closing or whatever. That's not what they want, they want the actual receipt of purchase.

So, I'm really pissed off. Because when you look at this, warranties, insurance right? They all have these numbers on how they can screw you as much as they can. Everybody knows this. We look at the average person, they stay in their home for about seven years. So, they know this, and they put a ten year warranty on their products knowing they will probably only have to cover them for seven years. On average. Again, we are looking at maybe hundreds of thousands of these things. But they have all these specifics and all this crap.

I told the Sears guy this. You know, you're running a crappy shitty service. You really need a receipt? You know that this was purchased. I purchased the house which means I'm taking over everything from this house. You should honor it. They wouldn't honor it. But the story get even better. Stay with me here. I go to Lowe's and Home Depot now right? So now I wasted a full day. The thing is really leaking. My garage is getting shot now. I go to Lowe's and Home Depot. Both places I have to tell my whole entire story to a member. Sears had a picture now...$79...I'm like to hell with you guys, I'm not doing business right? $79 for the guy to come out and tell me, "Oh, it's broken." Get back in his car, and go home. That's what happened.

Home Depot, Lowe's, I thought it would be different. I need someone to go to my house, and take a look at my water heater. I told them I'm going to buy a new one in your store. You install it. That's a 1,000, $1,200 job minimum. And they have no clue. They have me in the store forever. They can't get a guy, or call a guy to come to my house. They have nobody in these stores. I'm talking both Lowe's and Home Depot. That knew anything about water heaters. And they had no idea who to call to get someone to my house. Even though these places have emergency installation

services. I mean if your HVAC system shuts down. If your roof collapses and it's leaking. These are common things people fix right away. That you can call Home Depot. They have emergency services for this including water heaters. They had no idea who to call, what to do, anything about water heaters. They didn't even know what aisle to tell me to go to, and I don't know anything about it.

So I waste about two hours at these places and I wound up calling a close friend of my neighborhood who used to live in the northeast who flips houses, and does great, and he happen to be at Home Depot at the time. He said, "Friend, don't worry about it. I'll take care of it." Bought a water heater for me. Installed in less than two hours. All for less than $600. Put everything on his card. Said, "Give me a check when you get a chance." Just like you would normally do business with people that you do business with, and fixed it.

Now is this situation normal? Because when I think a lot of people are idiots, sometimes I have to look at myself and say maybe everything else is normal and I'm the idiot. So maybe it's me here. But what I see things like this. I mean people hate money. Not that you have to be greedy, but you have to feed your families. I'm trying to hand you money at Home Depot. I'm trying to hand you money at Lowe's. I'm trying to hand money to Sears. Well, not really, because it should have been covered under warranty. But, I'm trying to do business with you, and you're not doing business with me, and I just don't get it. It's not a joke. It's like trying to tell someone the God they believe in doesn't exist. It really is a religion. A cultural thing here that I don't think is ever going to change. Maybe I just hope one day I kinda get used to it. But calling one guy, one friend who did it in two hours compared to wasting two full days, and now I have damage to my garage.

The fun stuff that I have to go through. So all you guys in the northeast that are freezing right now, and telling me the weather is bad. Well, the weather is better off here, but we have other problems to deal with.

Anyway, I have a great podcast for you this week. We have a lot of special guests lined up over the next few months, but this one guest I'm interviewing you should be familiar with since he's given you a ton of winning trades over the past nine months. In fact, I don't know one trade he's given you that has not been a big winner. That person is Mike Alkin, former hedge fund partner who I hired about six months ago, and is now the editor of Money Flow Trader, a newsletter designed to help you profit when stocks fall

in value. But I'm not bringing him on to pitch Money Flow Trader, those of you subscribers to the newsletter. I'm very very happy considering almost every one of Alkin's positions have been triple digit winners since we launched the product in December. So a lot of you are happy. I pitched the [inaudible 00:10:06] that was the reason why. I'm glad you guys are making money. It's not going to be about Money Flow Trader.

This interview will be one of the best of the year. I'm not hyping this up. Because Mike is a great analyst, and we have different opinions on where the market is heading, and we are both passionate when it comes to our research. We are going to provide a lot of facts to support our thesis. We are not going to have a fist fight on air. It's not going to be about that. We are close friends. We are going to explain how even though we have different opinions on the direction of the market, how we can both be right when it comes to our individual stock recommendations, and it's going to give you a wealth of knowledge if your bearish or if your bullish. Because you can make money on both markets.

Now trust me on this. You are going to learn more about stocks in this segment then you will reading any investment books. [inaudible 00:11:03] tons of stock ideas to buy and to short just from this one segment. An educational segment. I'm going to show you why, and provide my evidence. The way stocks are heading much higher this year. In fact, I'm going to break down why the S&P 500 is cheap. Yes, I said cheap. Which I may be the only person on the planet with this thesis, making me a contrarian. Kinda weird right? Because the contrarian play right now is to be bullish. Everyone I know, everything I read, almost every analyst on CNBC. Even past bulls like Tom Lee, Paulson, these guys are like, "Well, we are bearish on the market, could see a pullback." You're not seeing too many people going to T.V. or reading about hey you should be buying stocks. You're not hearing that. Which is a contrarian opinion. We know that contrarian is usually the side you want to be on. That works really well for you. You don't want to follow the heard or the crowd.

Before you go to my office, because you're going to stay my opinion, buy stocks, think I'm crazy, drag me out the door, feed me to the dogs, you may want to give this educational segment a listen. Because we are going to give you tons of facts and data that supports my thesis. With that, let's welcome Mike Alkin. One of the best short sellers I know, and who is bearish on the markets, back on the show. Hey Mike, how's it going buddy?

Mike Alkin: What's going to Frank? How are you doing pal?

Frank Curzio: I'm doing good. I heard. I don't know how I heard this. But I heard your podcast is doing well there. I want to start with that, because we are going to get into the market, and your opinion and stuff, but you just had a recent guest on, and I know that's getting attraction. Now you've got your social media. You've got more people listening to you, and you're gonna get with that increases the large part of the hate mail that you get sometimes, and the crazies and things. But how are you doing with the podcast? Welcome to the podcast world. You finally made it man.

Mike Alkin: Yeah Frank, for somebody who spent their entire career in the shadows as a short seller, doing a podcast if you ask me a year ago would be the last thing I'd ever say. First of all, personality, I'm more of an introvert than an extrovert. You mentioned social medial. It wasn't until a buddy of mine, who suggested I go on twitter, I think it was seven, eight years ago, and I went on and then I didn't post anything ever, and then a year ago he said, "Just start posting.", and I did, and it's come out to be something that I really enjoy. I have my name out there, which is something most people hide behind something that's not their name. So I'm coming out of my shell. Right? You hit 50, and hey what the heck? It's my Mike [inaudible 00:13:51]. For an introvert to have podcast and to be vocal on twitter, I'm having fun.

Frank Curzio: That's great stuff Mike. And they have a podcast, talking stocks over beer, and it's getting a lot of traction now, and you have a lot of great guests on. It's really really cool, more based on the hedge fund community and things like that, and has amazing hedge funds that I don't see interviewed really anywhere. You may see that Michael, but really really good guests.

And I wanted to throw that out at the beginning, but let's move on here, because right now we have different opinions on the market right? You think it's going to come down a little bit. I think it's going to have a pretty decent year and be a little bit stronger. I wanted to talk to you about that because when I get feedback, and we did this podcast a little bit I think a couple months ago, but I want to get more into detail because of a recent conversation we had. This was a couple days ago. I just thought, "Wow, this would be great to say on the air." Because even though we have different opinions, a lot of the stuff that we like and don't like kind of overlaps. So, talk a little bit about why you think the markets are going to come down. I want to get your opinion, and even some of the sectors that you don't like and you choose to avoid right now that are crazy expensive.

Mike Alkin: Is that the conversation where I said I thought you were smoking crack?

Frank Curzio: Yeah that was the same conversation, which we are going to get to in a little bit where we had a little bet about KU going further than Arizona where you had [inaudible 00:15:16]. We'll talk about that in a little while buddy.

Mike Alkin: So, look, I forget what you had said about the market or something, and we went back and forth, and that's what's great right? Because neither one of us really knows what's going to happen. My whole thing is, I don't spend a great deal of time thinking about the market, but now I do in terms of what direction I think it's heading, and what that helps me do Frank is think about how to position myself, and now that I have subscribers with a newsletter, and listeners on the podcast, how do you position your portfolio? I think there's times when it's a blank canvas. Somebody can be 100% long the market so they could have $1 in stocks exposed to the equity markets. Or they could have more than that. They could borrow. They could leverage themselves up and have more than $1. But let's say you have $1, and you didn't have leverage, you could be totally exposed to the market, and that could be good or bad. If it's going up or going down.

But there's other ways to think about it. I could have some cash that I have in the portfolio. I could have 5% cash, 20%, pick a number. Or, I could short some stocks, which reduces my long exposure as well. Because if I'm short in equity I'm betting against the stocks so that reduced my exposure. So, to give you a quick example, I had a $1 in the market and .20 was in cash. That would be 80% net long. So I have 80% exposure to the market. If I had another 20% exposed through short selling I'd be 60% net long. So the way I think about it, you and I have talked about this Frank.

One of the things I see it a lot in the newsletter industry. Guys out there calling the market crashing, it's doomsday, get your prepper kits going. Where the dollar is going to go away. Some of them tell you it's going to happen in three months or six months. Either they're brilliant and I'm a dummy, or they're trying to sell newsletters through fear. Because I don't know how you make that call. I like to be a little bit more sober. And by the way, I might be missing something, but since I've been reading them most of them are always wrong. But eventually a broken watch is right twice, a right? When it's broken? So at some point in time, some of these people will be right, but in the interim what happens to the people who are listening to them? So, whether it was working at a hedge

fund or writing in a newsletter I like to take a fairly sober approach to where we are in the markets and then that guides me as to where to look.

Now, I am a contrarian investor. That's my DNA. So you and I have different investment philosophies. You're more of a growth investor, which is great. You can make money in markets, and I know how you pick stocks. So you're looking, even in tough market, you're looking for where growth is going to be materializing. I'm a contrarian so it means I'm taking the opposite side of consensus. And I don't do it for the sake of doing it, I do it where I have a view that has a variant perception to what the market currently has. Now to have a variant view, you have to do some analysis.

If you are a contrarian for the sake of being contrarian you're going to go broke. Right? You can't disagree with people just to disagree. So you have to have some reason to do that. I start thinking about the market, and I will not forget its March 2009, and I'm at a big hedge fund managing a portion of a portfolio or having a portion of a portfolio that I'm responsible for, and stock prices are getting hounded. And you're sitting there and there's not a reason in the world that you would want to step up and step in, but I kind of at that time looked at where stocks were trading and the valuations that they were at. And you start to notice what's happening to some of these stocks when bad news comes out. And, are they continuing to go down at the rate that they had been going down?

I didn't call the bottom in March 2009. We didn't have meetings and say ding ding ding, this is it, but from that time you started to see, and you start to observe. Because you don't want to be a hero, you don't want to catch a falling knife. And we still had a lot of long exposure to the market, but less than we normally had. Because we were aggressively shorting stocks back then too. But you started to see and you started to observe the market, and for me I was very fortunate to work for a guy named Joe DiMenna back in the late 90s early 2000 type period. And Joe was one of the great hedge fund managers of our time. Manages many many billions of dollars, and the firm was White DiMenna. Maurice White, very famous economist and newsletter writer. Started the fund with Joe DiMenna. And one of the things that Joe always taught us was pay attention to how stocks react to news.

And it's probably one of the things that always stays with me. So as I start seeing this Frank, over the years now, when we had [inaudible 00:21:15] we had a global coordinated central bank effort where the governments around the world are buying bonds and driving yields down to nothing. Right? So bond pricing and

interest rates work inversely to each other. So as the governments are loading the balance sheets with buying debt its driving the price of interest rates down. Which is then creating the need for people to take on a little bit more risk elsewhere, and it's shifting money into the equity markets. So with that type of huge bid behind it. With accommodation like that you start to see the equity go up, and that's been going on for eight or nine years.

Now, you start to see the fed talk about quantitative tightening. So they're not going to be adding to their balance sheet and buying that debt. So that's a massive tail wind. I look at it and say, "Okay, that's not there now maybe we start to get towards normal price discovery." Price discovery hasn't really occurred in this market for decades. Real price discovery, natural price discovery. Meaning, somebody doesn't step in. We don't have somebody coming in and financially engineering what the buyers and sellers are willing to pay for something. Right? A pure auction market.

When prices are tumbling and the feds step in or the ECB steps in or the Bank of Japan steps in, they are putting a floor under it. That's not natural price discovery. We certainly haven't seen that for the last eight years. But now, with the fed stepping off the accelerator. You have a lot of potential things that can happen, and I look at it and I say, "Okay, well where is the market right now?" You know, you can make an argument depending on how you want to look at it, and say, "Wow, it's the second most expensive market." And you can point to two dows and then you see the internet bubble on where it was.

The text stocks were really grossly overvalued. But here as I look across the universe of equities in many industries things are really overvalued. So I look at it from that perspective. I said okay, we've got the quantitative easing that is reversing now. Then I personally look at where a lot of these stocks are sitting, and I look at [inaudible 00:23:59] consumer staples. I look at groups like the autocycle. I look across myriad technology stocks. I look across myriad stocks and say, "My god. Why are they trading here?" Stocks really grow when earnings grow. When revenues are growing, and they normally have historical valuation ranges. When I look across these universal stocks, and I'll pick on the staples.

When people who are normally equity investors or fixed income investors, and they're investing for income. When interest rates are done to nothing. When the corporate bonds they were investing in were virtually yielding nothing. Same thing with treasury. Same thing with municipal bonds. They start to need income. So what do they do? They rotate into what they perceive as safe groups of

stocks. What are those safe groups of stocks? They are brands they know. And what's happened? You've seen evaluations go through the roof on these things. And at the end of the day, business hasn't gotten better for them on the margin. It's gotten worse. At the end of the day, they've taken all of the extraordinary measures they can to try and get earnings growth.

They don't really have top line growth, so they go out and buy companies. They don't really have the ability to get pricing at the retail level if you are selling it to target or Walmart or Amazon. You can't raise prices that much. So you cut costs like crazy. They've done that. So revenue growth is hard to come by. Cost cutting has already taken place which means their margins have expanded. How else do you get growth? Well, you take advantage of your clean balance sheets, and you go out and borrow a ton of money. You borrow debt at very lose interest rates. You take that debt and you go out and buy your stock back. And if you bought back stock you reduce the shares outstanding, and you see your earnings grow.

Okay, well a lot of companies have added debt to their balance sheet to the point where they start to move into a range where if they were to add more debt to it, it starts to affect their credit rating. And if it starts to affect their credit rating, in the bottom market, it determines how much they will have to pay in interest rate. Right? So, now, they've gotta be careful. So they don't have that flexibility. So that makes it really tricky. And on top of that, I think it's 40% of the company in the S&P that were in the Russell 3000, a real broad index of stocks, have their debt tied to Libor. On a floating rate basis, so Libor has doubled in the last year.

So now, the interest rate is adjusting up. If they have to go out and borrow new money they are paying a lot more, and that interest expense is an expense that hurts earnings.

Frank Curzio: You brought up a couple interesting points there. One of them is that pay attention to the news, and I agree with you. Because when you see, even during a credit crisis like you brought up, you saw a string of bad news. There's a point when stocks stop going down on the bad news. And now what we are seeing, companies in the last couple quarters reporting good earnings. The average company that beat earnings fell the next day by [crosstalk 00:27:29] right?

Mike Alkin: Last quarter, the average company had a surprise in earnings of I think....the average stock that had a surprise was up a little over 1 and a quarter percent or so. In the fourth quarter, the positive surprises were, the stocks were down point 2 point three percent.

So that to me, I look at that and say, okay, so now, you've got this scenario where, okay normally stocks, it's beat and raise. You know the beat and raise game? Some companies are really good at it and manage Wall Street's expectations. Let's put up a quarter that's going to beat expectations. Raise our numbers, and stocks go higher. Well, it's really interesting when you start to see that not happening. That's something to say, "Wow, wait a second." Now that's more art than science, right?

Frank Curzio: Yeah, that's definitely art. That point I definitely agree with you on. But, you also said with earnings. We are going to see the strongest earnings growth will be seen since 2011, and the conversation we have was great. Because you say, "Yeah", but you're talking about people taking out debt, and buying back their stock, you see more companies buy back stock. With the quality of earnings growth we are talking about, and I see you know what, I've made that mistake. I've made that mistake three years ago, four years ago, when I said wow the buybacks, I mean I was looking at companies like Nike and without buybacks without adjusting their tax rate, and doing different things. But you know what? The market didn't care. All it wanted to see was stronger earnings. Right? They aren't saying, well how did you get to those earnings?

Mike Alkin: You were in the heart of accommodation. That's where I think, you were in the heart of an accommodative global central bank policy. Where money was flowing into the markets. For me, that's my view, it's kinda different now. Things are kinda changing. Let's pick on the consumer sector. What's the U.S. economy? It's two-thirds consumer. Probably a little more than two-thirds consumer. So we could jump up and down in D.C. about bringing manufacturing jobs back. It's just not there right? It's a consumer driven economy, and to me there are things that kind of don't make sense. I look at the consumer, and I look across what's going on, and I see that consumer lending growth is slowing. Right? I think I've talked about this on the podcast before. And it's interesting.

You have very good friend of mine going to launch a newsletter for you, Barry Cowen. Barry and I were partners at Knott Partners for seven years. We were one of five or six partners at a firm. It was a four billion dollar hedge fund. And Barry and I have known each other for 20 years. And he's worked for some of the biggest hedge funds on the planet. Maverick Capital, Glenview Capital, Leon Tuperman. He's bank analyst, and bank insurance financials, and we could talk later on about hedge fund performance, but that's for a different reason why hedge funds have been struggling as of late, but in terms of pure intellectual fire power, sitting in those places. It's crazy. In terms of the amount of research that goes into

analyzing companies. And in terms of pure bank analysis, Barry is a freak. What they look at, what he looks at, what he thinks about in terms of the economy, and how it impacts the returns on equity of banks, and the drill down that they do is nuts. And I've had the pleasure in my career of sitting there watching guys like Barry and Barry. And I choose not to be a bank analyst right? Because they eat, sleep, and drink that stuff 24/7. Crazy smart. But, I learned what to look for in banks, and what to pay attention to.

I look across what's going on in a consumer environment, and I see record level lows of unemployment, and it's fantastic that people are working, but then I look at what sectors, what's going on, and what I'm seeing now, what I'm seeing when I listen to the bank earnings calls. Even though I don't analyze them, I listen to the calls, and I listen to the cues, and I know what to listen for because I've had the luxury of listening to guys like Barry. I see consumer lending growth is slowing credit deal. Credit cards pulling back. I look at the auto lending cycle, and I look at subprime. What percentage of new car sales are going to subprime?

Well, it's about 20%. And what's happening in that universe? Well, what's happening in that universe is the faults are at global financial crisis highs. How is that possible? Everyone is working yet subprime, big word right? We all remember from the housing crisis. That is impacting the auto cycle. So you saw a lot of people getting into the subprime business, a lot of people having loose lending standards. It drove 20% of car sales. Well, as loses are approaching. Global financial crisis highs in the subprime area. What do they do? They cut back. So you're pulling 20%, not 20% of demand, but a lot of demand. It's getting harder for them to get a car. If they do they are going to pay a lot more interest rates. A lot more in interest. When credit card growth is starting to slow. What's happening there? And you are not seeing the losses on the credit card, but the demand for the growth. So is it that people are saving more? Well, if they are saving more or paying down debt that's not working its way into the economy.

So you listen for cues on the call. So it's not a goldilocks environment for them. I look at gas prices. If the subprime consumer is struggling, and gas prices now are as high as they've been in 2014. A middle income person might not recognize them. Oh god, they go to the gas tank and say, "Oh geeze, look at that." Gotta pay a little bit more. But if you are a lower income consumer, gas prices make a huge difference in how you live your life and week, and how much you spend on food. It makes a real difference. So I know this summer at the pump, they're going to

have a sticker shock they haven't had in four or five years. I look at the insider buying of executive at companies. People sell stocks for a lot of reasons. They buy stocks for insider. They sell them they might have to pay for taxes, they might have college education. So I think a lot is overblown when people look at insider selling of insiders and executives and management, but I look at it now.

Insider buying, when people step up to the plate, that's telling me that they have a lot of confidence in where they are. And there are windows when they can buy. But they're still insiders, right? They feel, touch, they know what's going on at the company. It's half of the ten year average. It's at 12%. The ten year average is 26%. So, if I were to look at them for cues, across the 4,000 copies in the U.S., they aren't stepping up. They're stepping up at half the rate they were stepping up to buy stocks at the last time.

Frank Curzio: I want to make it clear, you're not like a permeable. I'm not a permeable, you're not a permabear. We just look at different market conditions, right? I mean...

Mike Alkin: On this podcast, I talk about, am I bullish or bearish? Do I have a view on the market? Yeah I have a view. Am I bullish or bearish? I'm more bearish now. Do I tell people that they should be taking advantage of big moves up in the market to lighten their portfolio? Yep. I say that to my subscribers, and I say that on the podcast. And I lay out, I spend on the podcast probably three minutes of doing that, and I think since early February probably I've sent out three or four, two or three or four email updates talking about, here are the things I'm looking at, here's why I'm more bearish than bullish, here's why I think you should be prepared, because I just think that it's easy to be lulled into thinking buy the dip.

It's easy. Right? For eight or nine years if something when down it came straight back up. So I think it's just important for people to start to have a, excuse me, a mindset that is, and point out to them the things that are going on, that might not make it so easy to make money in the stock market. It always comes down to one thing, the risk I'm taking for the reward I could get.

Frank Curzio: I want to get some of your stock picks. The reason why I haven't is because I'm going to outline mine reason after this of why I think stocks are gonna go higher, and I want you to outline why you are nervous about the markets and come down. But, I wanted to shift the attention to also different ideas. Because a lot of the ideas that we share are kinda similar even though we have different opinions of the market, which is kinda weird. I'm not even going to say it, because I'm going to jinx ya. And I don't want to jinx ya.

But the stocks that you've given us so far, since I've had you on this podcast, almost every single one of them have been winners, and big winners. A lot of them are shorts. But I was talking to you about one short in particular, and this is what I love about you analysis. When you see, and I always say this guys the worst people to listen to are perma anything. Because if you're a permabear and the market goes down 80%, you're gonna say it's going to go down another 20%, 30%, 40%.

But with you, one of the shorts that you picked, and I'll let you tell the stock, which you nailed which is down 50%, which you came on my podcast, I think it was like nine, ten months ago. Now it's come down to a level and you said, "You know what, I think this company is a strong buy now." It's amazing how you flip. Could talk about that stock, and maybe a couple other ones that you like even with the short and long side.

Mike Alkin: Yeah, like you said Frank, perma anything, aside from having the working for Joe. I mean, NBA, PHD, you name it. Watching one of the best hedge fund managers on the planet ever in real time working for him all those years ago, things stick with you. So, in terms of how they [inaudible 00:38:37] in the news, how they react to news. Another great takeaway was I could be longest stock today, shorted tomorrow, [inaudible 00:38:43] tomorrow. Because it comes down to expectations and valuations and what are you getting for it.

So, this particular company, Rubbermaid, I think I came on you podcast the stock was 53 bucks, and I had followed the company for many years. I Have some things that I have mental models in my head, and I always pay attention to roll ups. Roll ups are companies that grow their revenue by acquiring a lot of other companies. Early on in a life cycle in a roll up they work. Because Wall Street loves growth. So they may not grow organically, meaning internal growth. Selling more stuff or higher prices to more customers. They go out and buy it, and as their stock prices go up, they have expensive paper stock to go issue for the acquisition, and a lot of times they issue a lot of stock, they do a big deal, and it keeps feeding off itself, and they become Wall Street darlings.

One of the things I've just learned over the years is they roll up, and then they roll over. But it's hard to figure out when that's going to be. And then I started sniffing around, and I started looking. I saw the numbers, and some things didn't make sense to me. I did some work, and I think I talked about it on your podcast. I won't bore people now, but I started to look and I said, "Holy Cow!" They

have a business invent as well that's making up a big portion of their revenue growth, and it's making up a big portion of their margin growth, and it's less than 2% of sales, and because of funky inflation accounting they were able to get the benefit of this. Nothing improper, but because it's only one to two of sales, they don't have to talk about it. No analysts are paying attention to it because one to two percent of anything doesn't make a difference right? Until it does.

In this particular case, they had the benefit for about three years of really funky one off type stuff that allowed them to get their earnings going. And as I started looking at it I said, "Wait a second this doesn't make sense." This is a crappy business. Nobody is talking about where this earnings growth is coming from. The eye is completely off the ball. I'm really interested. And then what happens? One day I wake up, and they bought a company called Jarden. Jarden was a roll up consumer products company that I think was the number one performing in the consumer products base for years. They bought mundane brands, mundane household matches, playing cards, you name it. And I watched this company for a decade. You had to be suicidal to short it, because it was a great roll up game. But what they did is they would buy companies, and they didn't reinvest a lot in the brands.

So they would buy a company, issue equity, and then starve it of advertising and promotional expense. I know from doing a lot of consumer analysis that's not good. When you are starving brands and don't reinvest, and don't give them time to grow, it's just a matter of time until the sales start to suffer. But if you keep buying more and more companies nobody sees it.

So I knew from watching Jarden in the prior year they had done two huge acquisitions. Back to back. And way outside of what they normally did, that was a red flag for me. And then they missed a quarter. These guys never missed a quarter. And then shortly thereafter, they sold themselves. That told me okay, these guys are sharp operators, they know how to play Wall Street, and they were very good at it. Got their stock price up. All legal of course, but just playing the game. And I knew that when Newel had to change their accounting like a lot of multi nationals had to do for an event as well that now they didn't have the benefit of that little tiny business showing that big growth, and they had to do a big acquisition.

When they bought Jarden I thought wow, guys would only sell if they knew they had nothing left. They did, and what did you see? They emerged and Wall Street fell in love with it. Because they got up there and said we are combining two juggernauts who've had

massive, one had a massive turn around and Newel, and the other one is look at the track record they have. And what happened? The sell side knew that there were going to be more deals to come, and the sell side knew that they were going to get banking business. And everyone fell in love with it. And the stock was on a tear, and I just knew it was a matter of time.

So, I did the work, and I said wait second, I think earnings, I laid it all out on a model. I think the sell side is out of their minds. I think the company knows they have a problem. I was talking about it on your podcast, I recommended it to my subscribers, and shortly thereafter they missed a quarter and fast forward, I don't know that was summer of last year, fast forward six months later stocks got cut in half. Now that being said, it came down to a point where I think it's kinda interesting right? So then I see a Starboard Value of activist fund came in, and they were wanting to overthrow the entire board. They were going to run a proxy battle, and I know that that put the company on notice, and when Jeff Smith at Starboard Value had some good luck in some prior things before, and he did okay.

So that kind of peaked my curiosity, and I watched it, and I saw Carl Icon had filed on it. Icon is on a different level than Starboard Value. Starboard Value is very good, but Icon is one of the greatest investors in the history of the world with his performance, and he used to be a corporate rater. And he'd go in and rate companies, he did it at TWA. He'd be an asset stripper, but way back when right? In the 80s. Now he's taken on a smoother kind of investing and he's an activist. He goes in, he rattles the boards, he rattles management. Management gets scared shitless when he comes in because they don't want to lose their jobs. So they tend to play ball with him. So I look at that stock that got cut in half. I look at the expectations that are washed out, nobody believes it will do anything. All the guys who are bullish on the sell side, now come out after they've blown up and say, "Oh, this is terrible! You can't invest in this company."

Okay, now you go Icon in there, he's got people on the board. Starboard Value just actually came back in, and they want more done too. And now the bar is so low. A lot right doesn't have to go on for this stock to move a lot higher. So that's kind of, I could be long something one day, and shorted the next. So that's kind of how I did it.

Frank Curzio: I don't want you to go over some of the auto stocks or things like that considered staples because I know you're doing a lot of that in your newsletter and stuff, but the point of this interview is that you're showing they are pockets even if your bearish that work, and there are pockets that are not going to work. Because even with you, you shorten these stocks when the market was bullish. This stock [inaudible 00:45:46] is two stocks that you get before you started on the newsletter on our podcast. These are two stocks that really got crushed when the market was going higher in 2017.

Mike Alkin: You worked for a guy for five years, Jim Kramer, who said, one of the things he's famous for there's a bull market going on somewhere, I gotta go find it. Right? Well, translate that into there's a bull or bear market underneath in the subtext of the whole market always going on. You just gotta go find value or you gotta go find fundamentals that are going to start to decline. Now, on a broader context it's how do I want to position my portfolio? That's why I say sell a little bit. Lighten up. I think the market is going down here's why. But that doesn't mean that you can't own stocks. You just gotta know what groups of stocks and what own. For me as a contrarian, I'm looking for stuff that [inaudible 00:46:38] that their expectations are so washed out. When the market goes down, if you can catch it's just not that bad type of stocks, where the valuation supports them, they are going to hold up better, or go up.

Frank Curzio: That definitely makes a lot of sense. Last thing I want to mention to you, and close this out. You are big Arizona fan. I'm a big Kansas Jayhawk fan, and we had a little bet going didn't we? I forgot what that was the bet.

Mike Alkin: You know Frank, I think so...

Frank Curzio: You forgot too, right?

Mike Alkin: No, yeah, the bet was something so, yeah...I initially started off I went to the University of Arizona, but I still I'm a die-hard Arizona Wildcat fan. It was a tough year. So they were embroiled in the FBI scandal with bribery allegations with college basketball. But a really talented team. I know you're a huge KU fan, and we bet that Arizona would go deeper into the tournament. I forget, what was the bet? I lost the bet.

Frank Curzio: I remember the bet well. I was just surprised that that bet ended after, you know, the first day.

Mike Alkin: It was, Frank, I had a tough week. I was really bummed out. Now I do feel a little better today I have to tell you. Because I did read that KU is now in the same company as Arizona. Allegations wise, from a college basketball bribery scandal.

Frank Curzio: They didn't bribe anybody. They just paid Adidas to right? What are you talking about? It wasn't us. Right? Like this doesn't go on with every college basketball team. It's so amazing. But anyway, I think that bet was you had to sing a song, and I won't hold you to it today, but I am going to hold you to it where you gotta go on a podcast and I was going to sing your song, you're going to sing our song.

Mike Alkin: I have to sing, is it the rock chalk Jayhawk? I have to sing the Kansas, do I have to sing the Kansas song is that what it is?

Frank Curzio: The Kansas. Yeah I'll send you the lyrics, I'll send it to you next time on the podcast.

Mike Alkin: You send me the lyrics and I promise you on my podcast I will sing it. I will devote it to you.

Frank Curzio: Alright you got it buddy. So listen I'm going to end it there. Guys, hopefully you got a lot out of this podcast. It's mostly [inaudible 00:48:57] this interview where it's okay when you see two different opinions it's not like one's right, one's gotta be wrong. But you have to understand, the underlying fundamentals of each single sector matter. Some sectors are gonna do good, some sectors won't, and sometimes you can see the market go down 5%, but yet certain sectors in certain stocks can go up to 20, 30%. We've had stocks that have gone up in 2008 and 9 as well and that's what you should be looking at folks. Underlying fundamentals, and no matter which direction you think the markets going, like you said it's always a bull or bear market someplace.

Mike Alkin: One last thing Frank. You and I, we work under your umbrella, it's Curzio Research. So I've heard some people say to me, "Franks bullish you're bearish how could that be?" Right? That doesn't matter. You have a view I have a view. But we're not dogmatic and fanatical about that view. It guides how we think about the markets. Like you said, you can have a really bullish view, and know when to not be in a stock, and I could have a bearish view and know when I don't want to be short something. You just gotta put everything in context.

Frank Curzio: Nah, it definitely makes sense buddy. So listen, I really appreciate you coming on, and good luck with your podcast I know it's on fire right now. You're getting a lot of viewers, and we will definitely have you back on soon, buddy.

Mike Alkin: Thanks man. Take care Frank.

Frank Curzio: Hey you guys, great stuff from Mike. Hopefully you got a lot out of that interview just showing what sectors people like and what sectors don't. I thought he brought up some really good points. This is why I always have people on that have a different opinion than me. Because one of the things he said that stood out to me which I thought was great was how the markets react to news. And right now, even the positive news, especially last quarter, I think it was like 1.4, 1.5% the average stock who beat earnings, that's when it fell the next day.

And if you missed earnings then you were like Walmart you fell 10, 11% in one day. So when you're not seeing your stock go higher due to positive news it kind of signals that maybe there is a top. But with that said, I disagree when it comes to the earnings growth the sales growth, and that's what I'm going to get into right now, explain it. That's why I let him go a little bit with his thesis, this way you get my thesis and you understand.

It doesn't mean that you have to go completely long in the markets or completely short in the markets, but it's good to get a perspective because I learn what he's thinking of from, you know, maybe I shouldn't get too excited. And he's learning where I'm thinking of maybe I shouldn't get too excited on the downside. And it really adds, hopefully this is coming over good, because it orally adds to the analytical part of making the right decision.

That's what we want to do here. Making the right decision for each stock, for each sector that we invest in, and you do that by getting both sides of the story. You don't do that by everybody talking about the positives. Like when he went over with Newel and the whole sell side loved it. You do it by sometimes begin a contrarian.

That's another thing I disagree with him. I think that contrarian investors more being bullish in the market now than bearish because I'm just seeing everybody bearish on the markets. And let's talk about that right now. Because when I look at the markets I see three major risks. Outside that, the president just tweeted that we're going to send missiles to wherever Syria, wherever he

wants to send missiles to this week. Next week it will probably be someplace else, right? So that pushed the markets down a little bit, and that's on Wednesday. Now, the three risks were trade wars, right? Trade, tariffs, which I said this is going to be story, it's not gonna exist three months from now. I'll go in little bit more to that in a second. Also we have, what? Rising inflation which is a worry, and rising interest rates, right? Two things that usually don't bode well for stocks.

But when you break down those risks individually, and the reason why I said this about the trade wards is we have the EU, we have China robbing us blind. Okay, now we had whole segment on this, put your political differences aside. This is why we saw China blink. They had to blink. They have a surplus.

What does that mean? Because sometimes it doesn't register. Well, 20 percent of China's exports go to the U.S. 20 percent. That amounts to 505 billion dollars. Yet, if you look at what we're sending into China right? What they're importing from the U.S., that number is about 130 billion dollars, maybe a little bit more than that. But, it turns out to be 375 billion dollar deficit. Hopefully those numbers add up, just again, doing this on the fly I've done a lot of research on this. But, you can see the massive impact that if we shut our markets off to China what they would have. You raise tariffs you raise taxes, you impose tariffs on different goods, and we want them [inaudible 00:53:34] trade fair. Because we are getting taxed like hell. It's not called taxes, right? It's not called taxes, but it is called evaluated tax, and they also charge general sales tax.

So when you're looking at these two things, right? Everybody is used to saying tariffs, but if you looking at Canada. The evaluated tax combined with, I'm going to combine both of these guys. The evaluated tax with the general sales tax. We are talking about between 11 and 15 percent they are charging us. China charging us 17%. Egypt 14%, France 20%, Germany 19%. I want to thank my buddy Steve Kumar for providing these figures for me. He had this in his Vigilante Investor newsletter and talked about it.

But you're not seeing that mentioned anyplace. Because they're like no, no, we don't do tariffs, no. No. Instead you just call the VAT and GST right? Instead. So we're getting robbed blind, and we put a stop to this. Right? Maybe we could have handled it other ways or whatever. But the bottom line is China, and EU, unless they want to see their economies go into recession almost immediately they have to comply, and behind the scenes they are.

They're negotiating, China came out and said, "Whoa, we're gonna raise tariffs on.." and it turned out to be one 100th of our GDP. Why do they have to do that? Because this is negotiations. Right? You need to safe face. The U.S. can't slap someone in the face and say, "Hey you know what? We're gonna do this to you and you better take it." And if the country does nothing, what does that signaling to the rest of the world. That hey, we're not tough, we don't care. We're letting people bully us. Whatever it is.

You have to try and safe face. So when China came out we saw the market come down by 700 points, and this was last week. When they came out and said, "Hey, we're going to raise tariffs on...." Again, it counted as such a small percentage, but it was more of a reaction of hey we need to save face, but there's negotiations going on behind the scenes, and it's going to work out.

So you look at a major risk that pushed stocks down tremendously. Probably a good five, seven percent [inaudible 00:55:33], a lot had to do with trade. And that story is gonna be nonexistent three months from now. It's gonna be nonexistent just like, I mean think about all the risks we talked about. Brexit. You're looking at credit crisis. Housing crisis. Collapse on housing prices. Oil shock. I mean think of all the news over the past ten years that has happened with everything going on. How many terrorist attacks, how many huge natural disasters. Some of the biggest in the world. Right? I mean the amount of money we paid for natural gas in 2017 I think it was a record high in terms of the insurance claims.

So you're looking at all these we don't talk about them anymore. They're gone. Right? They're gone. Stocks recovered. They digested this news. They're gonna digest trade news. It's not going to be an issue. It's in everyone's best interest to make it fair. It will be fair, and it's that simple. I don't care what side of the aisle you're on. I don't really care if you're a democrat or a republican or whatever. I'm just telling you from a stock perspective, which is what this podcast is about and why you wanna make money. If you wanna make money, you shouldn't care about trade. There's no trade war, and there's not gonna be a trade war.

It's not in anyone's best interest. It just has to be fair. That's why China blanked. Which we said was going to happen three, four, five weeks ago. And we're going to see [inaudible 00:56:49] do the same week pretty soon. That's going to be taken care of.

Now, let's go on to the other two risks. The other two risks are rising inflating, and that uptick inflation is scaring people. Inflation views in negative when it comes to the stock market. The idea is that higher prices leads to fewer goods being purchased by consumers resulting in a decline in profits and much lower stock prices. Right? Because that's what it's about. It's about profits. You see profits come down, then you're going to see stock prices come down. Usually when you see corporate profits go high, you're gonna see stock prices go higher. Normally you see that.

But inflation is not bad. Unexpected inflation is really bad, and we're pretty aware of that. Everybody's talking about it, it's being mentioned every place, and that's gonna catch people off guard, and if you see that. Not people, but also companies, you get caught off guard with much higher inflation, that makes it more difficult for companies to pass these costs onto consumers right away, and that would really hurt profits a lot quicker, and that results in a steeper loss. That leaves stocks coming down ever further.

We are not in an unexpected inflation in our environment right now. Inflation has been gradually rising, which is fine, right? So you see it rising and that's why the feds are saying, "Okay, that's gradually raising rates, the economy looks good, inflation is going higher." This is what we expected five years ago. It didn't happen, but it's happening now. But you really look at the numbers of inflation. It's amazing that people are worried about the levels it's at. Even if it goes higher from here. Because if you go back to 1913, which is pretty far. I'm not just picking a random date, but that's when the inflation rate going back, that's where they really started tracking the numbers back then.

So, you're looking at it dated back to 1913, the average inflation rate is 3.2%. Right now we are sitting at 2.1%. So more than a full point lower than historical average, and then if you even take a period from like say 1950's to today. If you look from 2014 inflation has been going higher, but if you pull up almost any chart [inaudible 00:58:59] 1913, you're gonna see we are relatively low when it comes to inflation. You just have to look at any line any chart. Punch up to google, punch up inflation rate since 19 whatever, and when it comes up click images and you're gonna see a whole bunch of charts that you can look at. Just all pictures of charts and stuff like that.

So, when you see that you're gonna see wow, even though we've come off our highs from inflation, it's still kinda low, and if you compare it to last year, we are lower on our inflation rate. So late month's inflation rate compared to last year, we are actually

low [inaudible 00:59:33] last year at this time. Which is kinda weird with everything you read. It doesn't really make sense. So when you look at inflation as a whole, as long as you don't have unexpected inflation which we don't, and it's being monitored. I don't really see it as a risk. As long as it's being monitored, as long as we aren't seeing it get out of control, and again, it's lower, much lower. It was 2.7% in 2017, and we're looking at February, I think that's available data, compared to 2.1/2.2%.

So, I think those fears, when you look at the fears are kind of over blown. Yes we are seeing higher inflation. We're not seeing crazy inflation. It's just the first time we are seeing inflation rise in such a long time. There's a big low, and we thought all this stimulus would happen. So now what's the fed doing? The fed's gradually raising rates, which is fine. Now is that a risk? Yeah, after they finished their [inaudible 01:00:26] cycle it's usually a sign that it's more expensive to borrow. You see mortgage applications a little lower right? Because with lower interest rates more people are gonna try and borrow money to buy houses, and now the interest rate is going higher.

But, what people don't talk about is during that environment, we usually see home prices go higher. Home prices are skyrocketing right now. And they are going to continue to sky rocket guys. It's not a bubble, there's just not enough supply of houses out there. There's just not. [inaudible 01:00:57] pendulum swing to the other side. They'll be a time. It's not going to be a housing crisis. Because the subprime debt in housing is a lot lower than it's ever been, and the banks are not allowed to lend like crazy right now. It's a lot more tightening structure when it comes to the banks that are more conservative.

But you will see home prices fall. It might happen five years from now. It's not going to happen before that. I think housing prices are gonna go higher. I'm looking at my neighborhood, I have good contacts in the real estate industry throughout all of America. [inaudible 01:01:24] this podcast that I talk to. Nobody's telling me home prices are going lower. I haven't heard that once. If you have, email me. Frank@Curzioresearch.com, send me an email. I want to hear from you. I haven't heard that from anybody.

Oh housing prices are really started to climb! No, I see rental incomes declined little bit, they've been going up. Anyway, but if we're looking at rising interest rates, still relatively low compared

to historically. Even if we continue to raise, and raise a full percentage point from here, which is gonna be what? It takes a 2.5, 2.75 at short term rates. Even at the level, that's considering that they're gonna raise by .25% increments every three months. Right? So a quarter percentage every three months, that's what they're planning on raising. So, a full percentage point in a 12 month period would take up to 2.5/2.75, but that's still relatively low in historical standards.

We are looking at a rate that's more, 3%, 3.2%, if you're looking back historically, on average. This is dating back for the 1960s. So I spent a ton of research over the past three weeks. All market research, all data, all this focus. So what does that mean? It means that trade fears are overblown. These are the main risks that are causing the market to come down. You're looking at rising interest rates, not a big deal, as long as they're not unexpectedly rising, which we'll know because we're monitoring the data every month it comes out.

You look at the fed raising rates. Yeah, to control inflation, but inflation does. We'll see what inflation does. If you're looking at wages, if you're looking at technology when it comes to fracking. If you're looking at technology when it comes to robotics, big data analytics, cloud, if we're looking at technology products, semiconductors. I mean pricing is in check. Okay, you can see healthcare is going through the roof. Yeah, you're right. And education and tuition is going through the roof, but a lot of things where prices are maintaining the same levels. So as long as wages are static, which they are. And people say, "Well, that's a bad sign of the economy." I don't think we're going to see inflation go out of control, so I don't see inflation being a major problem

And, interest rates, everything's expected it's on the table. We're talking about the feds telling you exactly what they're going to do over the next year. So a lot of this stuff is priced into the market. Especially if we're all talking about it. People are writing about it. What does that bring us back to? Well, it brings us back to earnings, and earnings are growing [inaudible 01:03:52] this quarter at the fastest pace in seven years. 17% earnings growth, year over year, which is incredible.

You can't just take earnings growth and say, "Wow, it's earnings, it's tax reforms." Sales are growing by 7%. Profit margins are increasing year over year. So, this isn't just a, hey tax reforms,

and this is a bogus way of increasing. No. We're seeing it across the board. We're seeing strength across the board, and from my experience bring in this market for over 20 years, it's rare to see a continued bear market.

And this is why I disagree with Alkin and other bears out there. It's gonna be difficult to see the market continue to come [inaudible 01:04:33] if you're seeing this kind of growth in earnings. And we're supposed to see it this quarter, then next quarter for at least six quarter, maybe eight quarters. A double digit earnings growth. Which is incredible. Now, what are we going to see? We're gonna see incredible volatility. Of course. Market's going up. Market's going down, and that's the key to everything. This whole entire podcast. When you have this massive volatility, and disconnects to the market where you see energy prices pushing towards $70 a barrow, and yet all stocks are trading lower than when they were $4 a barrow, and almost all these companies who survived pushed their debt out, their balance sheets are better, they generate massive cash flow.

Because they can drill almost anywhere in the U.S. at 50, 55, and we're at 65 barrow low. This is a sector that's ripe to explode. You're looking at energy, all 11 sectors are gonna see earnings growth. Every single sector. So the [inaudible 01:05:31] they're all filtered down. It's 11 sectors, every one of the sectors are gonna see high growth. Which is amazing. Now if you take next year's earnings, expected earnings, which is around $174 and you take the S&P where it's trading today. You look at the S&P 500 trading at 15 times forward earnings. 15 time forward earnings. Yet the whole world is telling you, stocks are expensive, you gotta be careful. It's about earnings, don't look at where the S&P went, where the dow [inaudible 01:06:03] how high it went. Because the stock market go up could double in three years if earnings triple over the same time period, the market's going to be cheaper even though it's up.

Because earnings are growing faster than the overall market. It's important for you to realize that. Because people say the market's up so much, its expensive. No. It doesn't mean it's expensive, especially if you have that earnings growth. Why do you think Microsoft traded 70 times earnings 15 years ago? What does it trade today? 15 times earnings. 10, 20, 15, X. Because they're generating more earnings now. More sales. So you're looking at 15 times forward earnings. What does that mean?

Well, the historical average is 15.5 times. That dates back to the 1950's when S&P 500 became 500 companies. And even if you take the five year average that's 16.1 times. So we're trading below our five year average right now.

Yet the whole world is telling you that stocks are very expensive, but they're not. Not all stocks are cheap. Look at technology. A lot of these stocks are through the roof momentum is you have to be careful. But there's lot of names out there down 20, 25 percent. Blue chip names that are fantastic buys. [inaudible 01:07:16] just came out with an issue highlighting a lot of these statistics that I've gone over and done a ton of homework on a 13 page report, but I also gave you a large [inaudible 01:07:30] that I love that's down tremendously. That I think has incredible growth. Is gonna see incredible growth, is dirt cheap, and a lot of problems it had to fall 30% no longer exist. And half of that was because the market came down so much.

So start looking at blue chip names, good names, even the energy sector that are fallen down. You're gonna find names now 15, 20%, and you know what? A lot of these names are not expensive, a lot of them have growth [inaudible 01:07:56] next couple years, and this is becoming one of the best markets that I've seen probably at least in the next five when it comes to finding new ideas that I like both on the long side and as Alkin mentioned, even on the short side.

I've said this before. It's finally becoming a stock pickers market. Okay? It's not like, "Oh okay, let me just buy the whole sector and everything is gonna go up. Let me just buy the market [inaudible 01:08:20]." It's very selective but for me, the stocks I'm looking at, just like Alkin and a lot of the stocks he's looking at [inaudible 01:08:27] which I agree with [inaudible 01:08:32]. We're finding a lot of good ideas right now. It takes a good time for you to make money, if you're smart. But for people telling you that you gotta be careful, the markets crazy, look I just highlighted three major risks that I don't see as major risks.

They're all in front of us, trades not going to exist, we're all highlighting how inflation is going high, we all know about it, interests rates are going high, we all know about it. I don't see those risks as prices on the market. And yet, looking at the stock market it's going to see incredible incredible incredible earnings growth. Not only just in this quarter, but going forward. Now, you may say, Frank it's earnings growth. I don't know if that's enough evidence for me.

Let me tell you something, let me highlight a few more positives. I know we're running late here. But if you're looking at Evercore. Evercore is a good research firm that came out with all kinds of estimates. They believe that this earning season, right now [inaudible 01:09:22] 17% earnings growth. They're predicting 25% earnings growth this quarter. That's a lot. [inaudible 01:09:31] 10% on average. Companies don't increase their dividends unless they're confident that they're gonna have a pretty good year. A good six-12 months. They wouldn't raise their dividend by this amount. Which is close to record amounts. Home owners. Right? The home prices are going through the roof right now. Home owners are sitting on 5.4 trillion in cash, or tappable equity that can be used to buy stocks. Could be used to fix their homes. Either way, the money that they could borrow, that they'll spend into the economy, which is good for the economy. 5.4 trillion. Remember how negative we were at 8, 9, and 10. How crazy it is.

Now with all the new houses being bought. Most of them, not all of them, you have to put down 20%. And now that you put down 20%, like I had to do when I bought my house in 2010, but the home priced increased significantly and that's all that equity in the house. A lot of people seeing the same thing. Especially if you bought your house in the last five, six years. You're looking at liquidity.

Guys, the amount of deals is insane. Santos, buy Harbor Energy for 10 billion. China Costco Shipping taking over [inaudible 01:10:43] over six billion. Walmart buying PillPack for one billion. A lot of these are highlighted by Evercore. [inaudible 01:10:53] for 185 million dollars. We're getting 300 million dollar deals getting done like nothing. What's not highlighted in that research report is the recent Sprint deal in talks with T Mobile. Multi-billion-dollar deal. Google buying Nokia's broadband business. Analogic being acquired by Altaris Capital for one billion. Apollo about to raise four billion for a third fund which is focusing on natural resources. They're gonna raise it easily.

Icon selling [inaudible 01:11:19] for 5.4 billion. Novartis paid 8.7 billion for Vexus. Verifone being bought by Francisco Partners for 2.6 billion. Guys, I'm highlighting these deals not to bore you, but these aren't deals from the past 12 months. These aren't deals from the past six months. These aren't deals that have been done in 2018. These are deals that were done in the past four days. The past four days. You don't see an M&A market like this in bear markets where people are spending multi-billion dollar deals in the past four days. There's more. I could highlight even more.

So I'm not telling you to close your eyes and buy the market, it's gonna go high. What I'm saying is, I think the market is going to have a much better year than people think. Everybody thinks we're gonna have a negative year, but don't let that discourage you from finding these stocks that I'm looking at that are trading below market multiples. Huge growth down 25%, 30%, and even blue chip names and a lot of small cat names that don't have to worry about trade fears because they don't have international business or selling overseas. There's a lot of good ideas I'm finding [inaudible 01:12:31] if you know what's out there, you're going to find similar ideas.

Hope the segment came off good. It wasn't took long for you, but again, I want to highlight some ideas that I'm seeing, and give you an opinion on both the bullish side and the bearish side. This way you can do the research yourself, and determine which way you wanna go, but definitely look for ideas. A lot of good ideas out there that I'm finding for the first time, like I said, in over five years.

Okay guys, be sure to check out my current research on the Facebook page where I post live videos. I just post a couple last week. I'm posting a lot more because I've just learned how to use this new system called Buffer where I can post things to all my social media accounts at the same time, which is a lot of fun, which is really cool. So, I'm posting on all my social media accounts especially Twitter as well, @FrankCurzio is my handle. Posting there a lot more lately, and again, I just have strong opinions. It's a lot of fun, but two outlets guys if you're new to Curzio Research brand you can look at it, find our stuff, we have a lot of free research. Find our weekly breakdown, podcast transcripts, and all stuff like that which is really really cool.

So yeah, be sure to check those out and again, we love to offer a lot of free stuff in hopes that you guys trust us enough to really buy our paid products which are really really good and we work really hard on there. You'll see the research is better than probably anyone else in the industry, and it's been that way since we started this company over a year ago.

I appreciate all that support, and if you have any comments, questions, need someone to yell at anytime, get your frustrations out, even if you disagree with me. Frank@Curzioresearch.com, that's frank@Curzioresearch.com. Thanks so much for listening. I'll see you guys in seven days. Take care.

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