

THE MIKE ALKIN SHOW

TALKING STOCKS OVER A BEER



Speaker 1: Free and clear of the chatter from Wall Street, you're listening to Talking Stocks Over a Beer, hosted by hedge fund veteran and news letter writer, Mike Alkin, who helps ordinary investors level the playing field against the pros by bringing you market insights and interviews with corporate executives and institutional investors. Mike sifts through all the noise of mainstream financial media and Wall Street to help you focus on what really matters in the markets. And now, here is your host, Mike Alkin.

Mike Alkin: Welcome to the podcast. It's Tuesday May 22nd, 2018. Hope you had a good weekend. On my end, after some very serious binge watching, I finished *The Black List*. I know you've heard me talk about it the last several weeks as I've been binge watching it along with the rest of my family, who's been doing the same. And as my teenage daughter would say, "OMG." Oh my God. I mean, I think this is one of the best shows I have ever seen and James Spader, who's been an actor for years. He's my generation. His portrayal of the FBI's most wanted criminal, Raymond Reddington is so beyond good, I can't even explain it. Just outstanding. A sociopath, murderous criminal with an endearing side. Just a fabulous show. I highly recommend watching it. It was renewed so it's on next year. I think it starts in January again, so it's gonna be a long six months. I'll probably have to go back and watch some of it again. But I rarely do that. I rarely spend too much time watching TV. I mean, I watch the news and I watch sports and you know *Homeland* is one of my favorite shows. I watch a little bit of *Billions*. It kind of bores me. It's okay. But this one is just fantastic.

Mike Alkin: So, anyway, my weekend, like I said, good. The usual. This time of year you'll hear me talk about the Lacrosse field but again, completely just down poured. Three games on Saturday. I was waterlogged. Just standing on the sideline. It was a lot of fun though. I have to tell you, for those of you who have kids, or if you have nieces, nephews, it's neat to see the kids grow up. You see their skills increase each year.

Mike Alkin: Now, my guy's 12 and I remember just a few years ago, watching him play lacrosse, four, five years ago, was like watching Little League. You know, throwing and catching was a chore and they couldn't do it. But now, they're like little machines out there and they really play at a high level. I played baseball, football, and hockey. I didn't play lacrosse growing up. It's new to me the last four to five years, but the town I live in, is a dominant lacrosse town, going back for decades. The high school just feeds kids into division one programs. You know, top programs all the time. Just to make the team is really hard for a lot of these kids, but it's a great program.

Mike Alkin: And it's nice because the dads who coach it up until about the ... in the summer programs, in the town league, and then the travel teams, the kids play at the middle school and the high school but in the town in summer leagues, and travel team, the dads coach and most of these guys played at very high levels. My son's coach was a four time All American at the University of Virginia. And what's nice about that is these guys don't live vicariously through their kids. They've been there, done that, they have nothing to prove. So it's a nice part of youth sports.

Mike Alkin: We play some towns with some programs that are okay, they're trying. And the parents were out of their minds. You know, I'm on these sidelines all the time and I listen to them and they're just out of control. And at this age, at 11, at 12, even at 10, they're going back trying to position their kids to get on this travel team or that travel team, hopefully they get to college. I mean, the pressure they put on them, it's absolutely insane. So, you know, you gotta keep it all in perspective and we're lucky to live in a town where it is put in perspective. So, a lot of fun.

Mike Alkin: My wife and kids are going away this week to Disney. I'm staying home. I know. I know what you're thinking. "Poor Mike." But I share with you a little Disney experience I had a while back. SO I'm probably going back six or seven years now. You know, I travel a lot as a hedge fund analyst, as a PM, and a partner at different points in my career. Always on the road. Right? I don't know, 70% of the time I travel during the week. And it takes a toll. But you've gotta go research companies. You gotta go research industries and sectors. So do a lot of traveling.

Mike Alkin: I was in the UK, where I probably, for the last decade, probably have spent two to three months of a year there. Did a lot of European and UK investing. So, six, seven years ago I had a quick trip there. I was going up

to Glasgow and then going over to visit a company, a couple of companies in Ireland, and then heading back to London. So, three days in and out. So normally if I go for a week or seven or eight days, I'd normally bring a suitcase with me. You learn to travel light, but workout clothes, whatever it was, but not this time. This time no casual clothes, nothing. I brought a suit and I brought shoes and that was it. Suit, ties, and shoes. One suit, another pair of slacks, because I know I'm gonna get something on my suit. I'm gonna spill food on my slacks and go from there.

Mike Alkin: So I'm there. We're in Glasgow. From Glasgow, I fly over in a torrential storm. Get to Ireland. Was glad to have made it across the water with the little puddle jumper we were on, going through the thunderstorm, and then get to London and I get to sleep and the phone rings in my hotel in the middle of the night. My phone must have died, my cell phone. So, the phone in my room rings. And normally my wife, she must have looked at my itinerary because when you travel that much, you don't say, "Okay, Honey, I'm staying at this hotel. I'll be here, there." You know, after a while it just becomes rote. So she knew she could get ahold of me on my cell phone. But this particular time she couldn't.

Mike Alkin: So she, the kids, and my mother-in-law, were in Disney while I was away. And I get a call in the middle of the night, and she said, "Hon, my mom's sick." It turns out her mom had a gull bladder incident. She said, "And I'm here with the kids and they're really upset because grandma's not feeling well. And they really, really would like to see you. Can you come back?" So I said, "Of course." So in the middle of the night, I make plans and I'm gonna fly to Orlando from London. And for whatever reason flights were booked, it was a headache but I get on the plane, I forget, 10, 12 hours. I had a stopover. That part of the trip is a little foggy. So I get there and I'm in Disney with a suit and shirts and tie, wrinkled shirts. Right? So I have nothing. So, what do I do? You do what you do when you're in Disney. We go to the gift store and here I am walking around with a Daffy Duck or Mickey Mouse t-shirt and a Mickey Mouse baseball hat and I buy a pair of shoes that were Disney shoes and I've got Disney shorts on.

Mike Alkin: So here I am walking around as a walking billboard advertisement for three days. I think it was three or four more days and I owned it. At first, I said, "I can't believe

I'm doing this." Like not that I'm there with Disney with the kids. I love that, but I'm sitting here, walking around wearing the Disney outfit. So I did it. I owned it. We had a lot of fun. It was great, but after that I had had my fill of Disney. Now my wife and the kids love it and they'll go back more with cousins and my mother-in-law. So, my wife said to me, about a month ago, she said, "Hey by the way," one of neighbors, "We're gonna take the kids to Disney over Memorial Day Weekend and I know your busy, you've got a lot of stuff going on but, if you're okay with us going, it's gonna be long. I know it's gonna be very hard. It's gonna be five days." I said, "Five days?" She said, "Yeah. No, no, we're gonna take the kids. Christina's gonna take the kids and we're just gonna go and you can stay home." So I said, "Oh my God. Yes, honey. I'll be okay. I'll figure out what to do for five days." She said, "You sure? I feel terrible." I said, "I know. But I'll weather through it. I'll tough it out."

Mike Alkin: Now inside, I'm thinking, now at the time I didn't realize we would finish Black List, I got baseball, I got hockey play offs, I got basketball playoffs. Free pass." A couple of days ago, sitting around the house and my wife says, "I feel horrible. I mean, I can't believe we're leaving you alone on Memorial Day. You've got five days. I would feel sick, and I'm sorry. Do you want me to book a flight?" So I put on my best acting skills and I said, "Honey, listen. I know it's hard. I'm gonna be by myself for five days and I'll figure it out." And she said, "You're sure you're not upset?" And I said "I'm not." So, this week I will have five days to try and figure out what to do. I don't have to pick up my towel. I can leave my clothes laying around. I can eat whatever the heck I want and I can watch sports all night. So, that's my upcoming week. I am going to terribly miss my family for those five days. No doubt, but I will weather through, in case you're worried.

Mike Alkin: So, now, let's turn to the rest of the week. Let's turn to the stock stuff. Tricky week last week. Stocks gave up about a quarter of the prior week's advance. The SMP was, and the NASDAQ, and the DOW were down a little bit, half to like 7/10%. What was in the news? What do you think was in the news? The usual, China/US trade negotiations, the saga continues. One day it looks like there's gonna be trade wars, the next day not so much. But it's the who knows, it's the uncertainty that make investors nervous. Last week I had Steve [Kumar 00:11:01] on and got some great feedback on Steve by the way.

Mike Alkin: But we talked a lot about the relationship of fixed income, of bonds, and how to think about it and incorporate it into your equity thoughts. Last week treasury yields were in the spotlight after they spiked to multi year highs on Tuesday. The ten year bench mark, which is the 10 year treasury, it's the bench mark, went as high as 3.1%. For context, that's the highest level since July of 2011. It finished the week up just slightly under 3.1%, but you know, that rise in the risk free rate, which is a ten year treasury. It's presumed to have no risk. It takes buyers away from the equity market and it kind of put the Wall Street mini rally on hold. And again, last week I touched on that. You know, the great earnings, fabulous earnings Right? Well, not so fabulous after all. And in terms of its impact there, the earnings were fabulous, the revenues were fabulous, but the impact on stocks wasn't so fabulous. After earning season, the market was still down 5%.

Mike Alkin: Earnings wise, there were a few earnings last week that trickled in. Mainly retailers, they dominated on that front. We saw Walmart, Home Depot, Nordstrom, JC Penny, Macy's, all five of them beat estimates, but Walmart, Home Depot, Nordstrom, and JC Penny, fell short on same store sales. That's the metric that most people focus on and the stocks got hit hard. Macy's had a good number, they beat same store sales, stock went higher. But so of those five, four of them, struggled with same store sales. That's, how are we doing? We see more stuff for stores that have been around for a year? Did it meet expectations? No. How is that possible? The consumer's doing so well. It's what we hear. The consumer, unemployment's at decades lows. Everything's fantastic. Or is it?

Mike Alkin: You've heard me say it before, I am very suspicious of the so called strong consumer. I mean, despite these unemployment levels, what we are seeing and what I look at ... Right? We're seeing signs in consumer credit land of weakness. You've heard me talk before about subprime auto loan defaults. They're above global financial crises highs. Credit card numbers, not so hot. Student loan defaults, forget about it. They continue unabated. Gas prices are going up. I notice it at the tank, at the station when I'm filling up. So, you know we ... Careful what you read in the headlines and I'm not gonna go ... this isn't a discussion about the consumer, or the macro. You can go back and listen to prior podcasts, but despite fantastic earnings we saw a good proxy for what the consumer

looks like this week, and it wasn't so hot. And it wasn't so hot.

Mike Alkin: So after last week the S&P id up about one and a half percent for the year. And the Dow is now flat. NASDAQ's up about six and a half percent, but that's the tech heavy, NASDAQ. As you've heard us talk about prior, we've talked about that before. So< I leave you with the same message on that, which is stay cautious. Right? If you have a lot of riskier assets in a portfolio, might want time to reexamine those. If you have some really big gains on some stocks, right? I know people hate to sell because they don't want to pay taxes or they fall in love with the stock. As Steve and I spoke about last week, ask yourself every day, "Would I buy this stock today? Is it an attractive risk/reward?" Because if it's not, it might deserve a spot in your portfolio, or deserve a smaller spot in your portfolio.

Mike Alkin: So, gonna shift gears a little bit. The goal I set out when I started this podcast was to help educate listeners so that they have more tools in their investing toolbox. You know, I do this for ordinary investors, retail investors, not for institutional. I do get institutional email, so I know people are listening, but I'm doing this to help educate people and I want to share insights and experience I have from 20 plus years as a hedge fund investor. I was a professional investor. I am a professional investor, for a long time.

Mike Alkin: And with the podcast I like to talk about the things that go into help shape my views on the markets, the industries, the sectors, and the companies. I typically start the podcast out with that and then I try and bring on some interesting guests and have conversations about myriad topics, that I'm hoping add value. And I don't have scripted questions. You know, I don't ask a question and they give me an answer and then I go on to the next question. I want the conversation to flow. I want it to be like you're listening to two guys, sitting in a bar, over a beer. It could go wherever. It could ... What I might have intended to ask them when the conversation started, might not happen because they said something interesting and we're gonna run with that. And that's a benefit you get from listening to these really sharp people. And the benefit of me having a fairly broad base of knowledge on different things in the equity markets, the fixed income markets, the commodity markets. Been around, seen the travel. We're gonna let you be, sitting

listening to us sharing a beer with us.

Mike Alkin: When it comes to discussing stuff. The only time you'll hear me discussing hot stocks or sectors is when I think there should be a warning flag hoisted up the flag pole. There's enough of that in the mainstream financial media. My God, you could read most newsletters who are in the business to sell subscriptions and what sells subscriptions to ordinary investors, unfortunately, is what's hot and what's in the mainstream, and what's working. S while they're out trumpeting alternative research ... What they're really, they're sealing newsletters and what sells newsletters is what's working. So, I'm trying to bring a different perspective to it than that. I'm trying to open up your investing mind to ideas that are out of the ordinary, stuff that's not being discussed when you turn on TV or put on the radio in the car.

Mike Alkin: [inaudible 00:17:06] my 15th podcast. Prior to fifteen episodes ago, I'd never hosted a podcast. I'd never spoken publicly really. Well, I shouldn't say that. A year ago I started talking about uranium publicly, but prior to that, in my career most of the time on Wall street is as a short seller. Short sellers like to keep a low profile. I mean, I invest a lot in the long side, but you know, you see on TV, you see some of the huge name hedge fund guys, the titans of the industry. And that's relatively new for the last several years. For a long time, hedge fund guys were very reluctant to go on because the law said you couldn't advertise your fund. So why be interviewed if it could construed as an advertisement. So people have shied away from that. Those laws have relaxed, so you see some of the bigger guys go on, but I've had no media experience at all.

Mike Alkin: But after doing this, after, what is, almost four months, I'm starting to get an understanding of who my listeners are. I get some terrific emails from folks all over the map, all over the world. And fascinating professional backgrounds, a lot of executives, a lot of retired executives, a lot of business owners who send me really, really thoughtful emails. And we go back and forth and they have questions. Now I can't answer individual questions about individual stocks. I legally can't do that. I'm not a registered investment advisor, and I have a newsletter so when a subscriber writes me I can't answer individually. I can talk in generalities but I can't tell them, I can't give them any advice whatsoever. But what

I do see, is really smart people, really with an insatiable appetite for learn and that's a common thread I see in these emails. And it's really a desire for more than just investment ideas, but they want to learn how to find them, how to process them, how to research them.

Mike Alkin: So that gave me an idea for the podcast. Which, as this podcast evolves I'm gonna have new ideas and new thoughts, and maybe new segments and I'm gonna introduce a new segment today. And it's a segment that's going to educate you about what an hedge fund analyst or portfolio manager does. And my goal is to put you in the seat, in my seat, and each week discuss the different aspects of analysis, portfolio management, field research, the stuff we do every day, but give you a behind the scenes look at how a professional investor goes about his business. And I have no idea. I have zero ability to come up with creative marketing ideas. So I'm gonna introduce what's called The Hedge Fund Corner segment of the podcast. Shoot me an email if you have a better idea. No pride in authorship on that. I could not care less. So, about 15 minutes before I started recording this, I thought, "Oh, geez. I need a name." So we'll call it The Hedge Fund Corner, but that could change.

Mike Alkin: And there's no particular order by the way, in which I'm gonna do this. I'm gonna start with this is how you find a stock to own or short. There's no secret sauce for that. It's not gonna be, "This is it," because there is no secret sauce. Right? For me, idea generation starts with being a voracious reader about various subjects and a lot have nothing to do with investing. It's a lot of current events, geo politics. I read a ton of history. Just a lot of stuff. And I've been doing that for three decades.

Mike Alkin: So I don't know how to say, "Okay. Here's the thing." You have a foundation and you build off of things, but in recording the podcast I can introduce you to what I'm looking at but it's hard to pinpoint what exactly sparks an idea. To say that I run things through screens and this screens, "Ah, here's the magic number," it doesn't work that way. I have a, if you would say system, I have ... There's a number of items that I look at it and a number of things financially that I look at when something piques my curiosity. It's kind of a smell test set of numbers that I look through. And over time I'll get into some of that stuff, but there's no secret sauce. Right? So, keep listening to the podcast. You'll know what's interesting to me and just ... We'll talk about some stuff that I think

will make for interesting ideas.

Mike Alkin: But today, what I want to talk about is a very, very important part of the research process. And I think it often gets overlooked, but it's critical. It's what some people come boots on the ground research. I grew up in the industry calling it primary research. Right? And that's the qualitative stuff. That's the peeling the onion back. It's doing a deep dive on a company.

Mike Alkin: So, I get an idea. Right? We just talked about it. I don't know where the idea comes from but I got an idea. So what do I do? Now for me, I've looked at, with pretty much every industry that you can think of over a long career. So I kind of have a mental play book of what to look for in each industry and a series of questions that I know I'm going to ask. And it's like, what you do for a living. Right? After you've been in it for a while it kind of becomes rote and you know what to do and you've got this innate sense of what works and what doesn't. So it's no different. That's what I do.

Mike Alkin: Let's say I'm an individual investor and I'm intent on managing my own portfolio and I want to figure out how do I get an edge. How do I know that this investment makes sense? Right? So, here's some of the things I do still, even though I might know an industry, a company. I visit the website. Typically, the first thing I'll do is look at a company presentation. Now I look at the company presentation in the investor section. I'm fully aware that the company tells me, in that presentation, everything it wants me to know. What they don't put in there is what they don't want me to know. So, always be skeptical. But I use that for a starting point. For me, I like to go the 10K, the annual report. That's in the investor section also. Now for me, if you follow me on Titter, you know my handle is footnotesfirst. For me, I like to read the footnotes first. That's kind of like reading a book backwards. I read the ending first. And I'll go into this in future podcasts, because that's where all the hidden treasure is, in the footnotes. But it's gonna take some time to work into what you want to look for in that. We're gonna get to that, but not today.

Mike Alkin: But to familiarize yourself with the company, what you do is you read the business description and the management discussion and analysis segment of it. And it lays it out. Some more than others. And over time and as we start to talk more throughout this Hedge Fund Corner series, you're gonna realize you can kind of tell when companies

are hiding something or they're not being full disclosure in some of the things. But we'll get to that.

Mike Alkin: But that's what you want to do. Read the business description. What do they do? How do they do? Who do they compete against? What's the market like? What's the industry conditions like? And then management discussion analysis. That's gonna kind of tell you how do our sales do? What's going on ... what did we sell more in units? Did we get more sales from pricing? Was pricing weak? Was competition taking away from our sales? They'll give you some flavor there. What's going into our cost of goods sold. What are the issues at hand there? What's happening in our selling general administrative expenses? Right? You don't need an MBA for that. You don't need to be a CFA for that. It's basic reading.

Mike Alkin: So from there, if I'm intrigued, what do I do? So I found a company I like, it's kind of interesting. I like the story. Be careful of stories, but I like the story. I don't know. The numbers might kind of make sense. And again we're getting into all that. So the company tells a good story. How do I know if it's true and what do I know, if the expectations are right. Now this is where the rubber meets the road for investors. This is where you see hedge funds do well.

Mike Alkin: Now, I'm gonna go on a 30 second tangent here because I'm sick and tired of people saying, "Oh, hedge funds suck." Under performing the last decade. Okay. Let me tell you about hedge funds. Hedge funds are not 100% exposed to the market. And those who invest in hedge funds, know that. Right? They're long. If I owned nothing but stocks, no cash, I'd be 100% long. But if I had shorts in that portfolio, or cash as a portion of it, I would have net exposure to the market. So if I'm 100% long, with stocks and I'm 50% short, I'm 50% net long. So I'm not exposed to the market. So, when you're not that fully exposed to the market, you're not going to likely outperform the market.

Mike Alkin: Now since I started in the hedge fund industry, I can't even tell you how much it's grown. It's multiples and multiples and, multiples of assets, by really smart capital allocators who know that there are periods of time where hedge funds don't outperform the market. Now people forget because the last several years, it's been La La Land with all of the easy money binge thrown at it, and passive

investing, and everything else. I remember sitting in the hedge fund when the global financial crisis happened. There were a lot of people when the S&P was down 38, 39% who damn well wished they were in a hedge fund that were outperforming dramatically. But when you're shorting stocks as a hedge fund ... And I'll go further on future podcasts about those who complain, "Oh but two and 20 and everything ..." It's not two and 20. It's one and a quarter, one and a half and 17 or 15 and how bad hedge funds are. And you see it in the main stream press. I'm gonna explain to you why they're not. But, that aside.

Mike Alkin: Here's what a hedge fund analyst does. And this is where the rubber meets the road. It's primary research. This is what I want to focus on today. Because what you're reading, if you're lucky enough ...I say that lucky with quotes, To read Wall Street research, from one of the investment banks. Well, for the most part they may as well be the marketing firms for the companies. Not all, but a lot of them. Right? They get paid fees to do investment banking for them. So it's not wise for the analysts to come out with negative reports. Even though the analysts can't ask to be independent, there's what called an industry a Chinese wall. Right? It separates it, the Great Wall of China. Good luck with that. For smaller companies, you have newsletters. Good luck with that. Not all, not all, but many, they're story tellers first who happen to wrap a recommendation around a good story. Right?

Mike Alkin: So, if you want to know if an idea has investment merits, you have to do fieldwork. Right? It's good old fashioned detective Columbo work. And most investors don't do this. Right? So most professional investors. If you run a reasonable amount of assets, you have access to company management teams. Now, those investors can't be told anything that is not told to all investors, because of something called regulation FDE. You know, full disclosure. There are laws of against that. Right? But the access that you get to management team to see them, they're people. So people talking to people. You get to meet them, you get to know about them, what's going on. You get to see their good days and bad days. Right? And at that level, the CEO, CFOs of big companies, they're brilliant. They're politicians. They're all good salesman.

Mike Alkin: Most mutual fund managers, and sell side analysts, who have great access to management teams, the analysts, most of them are very smart. But they take the

information they learn from these management teams and they build, really fancy excel spreadsheets to glean these insights and then forecast that future. It's access that individual investors don't have. Right? So they're using their own public information about the company, their own sense or feel, or gut. They go to a conference, they meet management teams in meetings, they go visit them at their corporate headquarters. All that access provides comfort. And then they live in their own little world. Right? They're building their models, building their spreadsheets. They talk to Bob. "I understand the business, seems like a good guy." There you go. Okay.

Mike Alkin: I cannot stress enough, I cannot emphasize enough that management teams are either too optimistic or don't see changes occurring. And if they do, if they do see the changes, it's not until it's too late, or they're not gonna cop to it until it's too late. So how do you get a leg up on that? Fieldwork. What is that? It's going away from Wall street, away from management teams, away from the crowd. It is the single best form of research you can do. It's quantitative. It's eyes and ears, and picking up the phone. Everyone here listening is probably on LinkedIn, or you've heard of it. You learn to think about an industry ... I'm gonna tell you a story.

Mike Alkin: 2000, I forget, five, six seven, I'm looking at a company called [Armor 00:30:06] Holdings. And I had known the company for a handful of years and the company was bullet proof vest maker when I started looking at it in the late '90's early 2000's. It was run be a really smart guy named [Inaudible 00:30:16] and he had put together this company in law enforcement protection, stuff like that. And then the war came. And then he started to get into the up-armored Humvee business, and SAPI plates. The plates the soldiers wear to protect them. They're bullet proof but made out of real high strength stuff. And there were analysts covering the company on Wall Street but you could see there was this drumbeat of a war going on and has the war kept going on there were more orders coming in. But, so, what can you do as an investor? You can sit there and wait to read a press release from the company that says, "We just won this contract." And then you say, "Oh God, they just won a contract. Let me go buy some stock." Okay, great. You win. Everyone is going out and reacting to that good news. How could you have anticipated that good news?

Mike Alkin: Well, here's what I did. There were little army shows around the country. Army outposts where orders were. There would be random shows throughout the country where all the vendors to the military would go and show their wares and you'd have a bunch of the army purchasing guys walking around. I would go to those shows and I didn't see many Wall street people at all. And I would walk around and I would talk to people. "What do you like? What are you looking at? What's funding looking like?" Right? To the buyers. The buyers of this stuff. "What's going on from a competitive standpoint? What's gonna make a difference in what you decide to buy? What triggers a buying decision?" Okay, that's a starting point. And then, these are government contacts. Because they're government contracts, everything's public. But you go to the military website, you go to the Department of Defense, you go to all the random websites for all these purchasing agencies within the government arm. It takes forever, but if you're sitting there and you're patient, you could pull out the bids. You could pull out the contracts. You could pull out requests for proposals. You could pull out what the specifications are.

Mike Alkin: We had boxes of them. Me and my team. We would pour through them. And we started to put this mosaic together. We'd travel around the country go to the, talk to these different participants at these shows. Talk to the people who would say, "Well, this is the kind of stuff we're looking for. This is what we like." We knew what RFPs, because they were coming out, they were publicly listed. We were able to sense what size, what capacity the company had. Were they in a good position to bid for this? If they bid and if they won, who are they bidding against? What are the chances of winning? What are the probabilities? IF they do, what's it mean to earnings?

Mike Alkin: I was at a presentation that one of the senior members, the management team was speaking at. And he said, I was sitting a couple rows back and I met him a handful of time, but he must have seen me at all these different shows. And he said, "I could give the presentation but there's probably somebody here who knows it better than the company, better than me, because everywhere I turn around I see him." And he pointed to me. And that's primary research. And we made multiples, many multiples over our investment. The stock got taken out eventually by one of the big defense contractors. But that's primary research. That's fieldwork. That's away from the crowd, away from the noise. It's having ... It

enabled me and my team to have conviction that, “I don’t care what the headlines say. I don’t care what the sell side says, because I don’t see these guys at these events. I know what the work that we’re doing, And we can do fourth grade math and we can read, and we can talk to people.” And that’s what it is.

Mike Alkin: Now, I don’t expect you to do that level of detail, but that’s a start. You want talk to customers. You want to talk to suppliers. You want to talk to vendors. you want to talk to the competition. You want to take to, if you can find them, former employees. That’s how you get an edge. So, for the interview segment today, I’m going to bring somebody on that is in that chain of primary research I and he’s got a new product that I came across recently. A friend of mine is on the board of directors and he said, “you should look at this thing. It’s kind of interesting.” And I did, and I thought, “Wow, this is a pretty cool tool that could help me in my investment research process.” I do a lot of work on a particular auto parts supplier and I travel around and I see stuff, and I take pictures of stuff. And I thought, “Wow, I could use this.” So from a primary research perspective, I’m going to bring on somebody who, I think, is really fascinating. And you could kind of see what I’m looking at when it comes to the primary research process. We’re gonna bring on Craig Stack, who’s the founder of a company called [Truepic 00:34:53]. Craig Stack, welcome to the podcast.

Craig Stack: Mike, thanks so much for having me.

Mike Alkin: So you and I met recently and it was a great introduction by a mutual friend of ours and one of your board members. Tell us about ... You run a company. You founded a company called Truepic and I was telling listeners right before, in the introduction, how I saw this and I thought, “Wow, this can really help from a primary research standpoint.” So, why don’t you tell listeners what Truepic is and then we’ll go into your background and how Truepic came into being. But tell us what Truepic is.

Craig Stack: Sure. Sure. Think of Truepic as a digital notary for photos and for images and videos, for that matter. So what we’ve done is we created camera technology where we can 100% authenticate that the video, or the image is accurate. That it has never been manipulated or photoshopped or edited whatsoever. But we also capture all of the metadata with that image. So think date, time and location. And we can 100% verify that that is also accurate and authentic. So

in a world, today, where basically you've got fake news, you've got edited images, where really seeing is no longer believing, we're bringing authenticity and truth back to the internet.

Mike Alkin: So that's interesting. So, tell us ... Before we get into your background ... That's interesting because you told me something while we were speaking the other day, that I didn't realize. That you can manipulate iPhone data. So, I could take a picture, because I thought ... When it was first introduced to me, I said, "Well, I can take a picture on my phone," and then when you and I were talking I said, "Hey Craig, as I'm using this I can see it really helps me to be, because one of the things that, organization is not my greatest strength. And I said, "So, I take a picture and I might have it, or somebody emails me a picture," and I get a lot of that from the podcast. People email me pictures on certain things they're seeing. And, now I get five hundred emails a day and I don't exactly remember ... I remember the picture, the email, but then five days later when I want to reference it, I go back, I'm like, "Shoot. Where is it?" And you and I were talking about how I could use it. Then you said something to me as, "Well you know Mike, the iPhone data, you can manipulate and change those pictures." So talk about that, because I don't think, I wasn't aware of it. And I don't know that my listeners would be aware of it.

Craig Stack: Yeah. You know most people wouldn't be. It's pretty crazy when you think about this. About 2100 apps right now, that lets you manipulate either the image of the metadata associated with the image. One app in particular, that's free, it's for the android phone, it's been downloaded over 30 million times and it lets you spoof the location of your device and subsequently the image that you're taking on that device. So you kind of have to wonder why 30 million plus people felt the need to download that app to change the geolocation of their phone. So it's really a crazy world right now. Most people, you know, I'm sure your listeners fall into this bucket, would never think of spoofing an image or what not. But sadly, there's a lot of people out there committing fraud and whatnot to really take advantage of these apps. The iPhone in particular, you can literally go into your settings, change your date and time, and you'll see yourself, you snap photos, they'll go back I not your photo roll and land at a previous date. So it's really simplistic thing to do. A lot of these apps are free and there's a lot of people doing bad things on everything from fake profiles on Airbnb and VRBO to

fake listings on eBay and Craigslist, fake dating profiles. I mean, you name it and there's savvy people out there, taking advantage of it.

Mike Alkin: Can you tell if somebody were doing, if an investor said they were visiting something and they took a photo, but they didn't really go there and they took a photo from the internet, and they said that, "We were here. We were visiting this place." They put another image up in a document, could you tell if that's real or not.

Craig Stack: You know, it's a great question. One of the first things that we noticed is that was a very, very popular way to commit fraud on the internet. Because there's about 1.8 billion images uploaded to the internet, every day. Right? So if you go to Google images, you can type in anything and it will pop up. So what we saw was that users would literally, they would google image search whatever they wanted, a cracked windshield, a red dented Honda Civic, it didn't matter, And they would take their smart phone and they would zoom in and snap a photograph of that image. And because the resolution is so high on these computer screens now days, it's virtually impossible to tell that that's a fake image. So one of the tests that we do at Truepic, and I can get into them. We have about 21 tests. But one of them is we can detect if you're taking a photograph of a photograph, or a picture of a picture. And We don't get into the details of a lot of our tests, because a lot of them are proprietary and we have patents on a few of them. In effect, from a high level we're looking at 2D versus 3D imaging, but it's an amazing way to quit these, root out a very prevalent way of committing fraud.

Mike Alkin: Wow. So, how did, what was the genesis of the idea? What got you started in this?

Craig Stack: You know my background is actually in finance. And I worked for a large bank as an equity trader for a number of years. And then I got into the insurance and life settlement world. IT was really ... I kind of had this epiphany back in late 2014, where I had several friends complaining to me, around the same time, some different use cases. One was trying to sell something online, and you know was getting questioned day in and day out, "Is this really you? Do you really have this item?" I had another friend who was single, was on a dating website and in fact had a lot of problems there. And it kind of hit me that, you know, seeing is no longer believing, that

you cannot trust your eyes anymore, sadly. And that what the world needs is a way to know that when you see a specific photo or video that's tagged with, in this case our watermark, you 100% know that you can trust that image or video.

Craig Stack: And you know, timings everything, it's really amazing. This came to me before all the surge in the fake news and whatnot, but this problem has only gotten worse since we launched the company about three and a half years ago. And sadly, it's probably only going to get worse with all of the introduction of the new editing tools. I don't know if you've seen some of the latest stuff where they can literally, take someone's video and change the words coming out of their mouth. It's downright scary when you stop to think about the repercussions that could happen from it.

Mike Alkin: So, it's fascinating, because not only are we talking about your product, I think it's good from a listener standpoint, they get to see, and we can talk about what a startup does and how a startup goes about it. So there's a different facet. Some of the listeners, they are ... If the time ever came when your company went public, there are thousands of other companies that go through this process and then they eventually become public and people forget where they came from. So, how does that work? Help educate listeners as to how a company goes from concept to startup, to raising capital and all that stuff.

Craig Stack: Sure. Sure. You know, a lot of that, was a lot of hustle and a lot of it was a lot of luck. Had the idea. I could not get the idea out of my head. Literally started by going through what names did I really like, what domain names were available. That I wanted the name to really speak out, so when you heard Truepic you knew instantaneously knew what it was. This was a domain, that sadly, was for sale, so I had to pay up and buy it, but I knew by doing that I would kind of force my hand into talking this idea and really doing something with it.

Craig Stack: Call it the first year, year and half, I really just went after it myself and without having a tech background, it was a lot of trial and error but I was very, very lucky. The first engineer that I hired to build version one is still with us today. I stumbled into hiring an incredible engineer and so we also realized that we had the ability to go out there and get some patents on this tech. That there was ...

What we were doing, and the way we were going about getting it done, had not been patented. So we hired a great law firm that secured several patents and we've got several more pending. Not cheap, but definitely necessary as far as building a moat and a wall around your product. Did everything from the trademarking, you know all that stuff, really, like I said, was not my forte. I used to work at a big bank and I'd never really done this before but I was passionate about it.

Craig Stack: So, after a bout a year and a half I realized I had taken the ball pretty much as far down the field as I was equipped to carry it. And I needed to find someone that had been previously been a tech CEO, that had built a business, exited a business, this is not their first rodeo, and they could run with it.

Craig Stack: And so, I was kind of in this quandary because I didn't want to really put the idea out there. I was kind of trying to keep it really hush hush, because I thought it was such a big idea and I was shocked that no one had done anything like this. So I was trying to kind of keep it on the down low, but at that same token, go out there and try to find a tech CEO to step in and run this. And once again, luck stepped in and a good friend, of a good friend, had just built a business, had 30 some odd employees, had exited it, and was on the road looking for his next gig. And we hit it off. He's an incredibly talented guy. He's out current CEO [Jeff MacGregor00:45:17]. We hit it off and I said, "Jeff, come run this." And so he moved out to San Diego and we went off to the races. We did, we're just closing a seed round at that time. We raised just under two million dollars, which is all friends and family money. We just closed, or in the process of closing series A, which we're doing a press release in about two or three weeks. It's exciting stuff. We're [inaudible 00:45:44] about 17 employees and we've got a lot of exciting stuff ahead of us that we're pumped about.

Mike Alkin: Well it's interesting. So, for me, when I, as a research tool ... I could take a photo, and it's going to tell me on the photo the date, the time, that can't be altered. And it tells me, it says who it's for. So it says my user and password and all of that stuff. So, now in my case, I have a newsletter, and I also have a uranium fund. So when I'm out, if I'm visiting a uranium mine, or if I'm visiting a car lot looking at used cars, and I want to use that as a point of reference, I take that photo, and it memorializes that I was there. So it does a couple of things. It

memorializes I was there, so if I want to share that with someone, I know that what I'm sharing, they know it's authenticated, that I was there. Right? Because you can't go in and manipulate that like you could on iPhone as you were telling me, and that, to me, was really interesting. But also, if I'm looking at others, it might have said, I was there, You don't know because people can take images and use it. So this is nice.

Mike Alkin: I like the fact that it does that, but it also helps me organize it. So, I know that I have ... It's not just with all my other photos with my family and everything else. This is, I can specifically set up for what I want by file and everything else. So I found that very useful. When you and were talking though, what really hit me is ... This is how you find technologies, by talking to people.

Mike Alkin: But you and I were talking, and I know from having friends in the insurance business, having a relative that's in the claims business, how much fraud occurs in the insurance industry. Now, for the big mutual where you can't invest in, well we know fraud exists but fraud hurts all of us because our rates go up all the time, and you were telling me some of the use cases for this, that I thought was fascinating. So give some examples, and I say this for listeners because while they may not be running an insurance company or some of these other verticals that this can be applied to, technologies like this can come along where it can be a game changer for certain industries. And by following stuff like this, like a Truepic or other businesses that from the ground up can affect change in an industry, it can ultimately make an investment much more appealing because there can be massive cost savings. So, talk about, Craig if you would, what the use cases for this are.

Craig Stack: Sure. Sure. So to take a step back, to give your listeners a high level of how the tech works. Right now we've got the Truepic app in the app store. You can download it for free and what happens is when you push the shutter button in our app, the millisecond you push that shutter button we're capturing that photograph and we're capturing that in our server in the cloud. And we're also capturing all of the metadata associated with that photograph. Now, as I said earlier. We can't trust your device because individuals could compromise their device one of thousand different ways, so we capture all of that that metadata from our server. Then we run that photograph through a series of about 20 plus test. It takes, right

now about 11 seconds. Right? And as I said before, we're checking everything from is it a picture of a picture, have you jail broken your phone, are you trying to spoof your location or the date and time, and a bunch of other tests that are proprietary.

Craig Stack: Assuming that you are a good actor, we then imprint on that image, our Truepic watermark on the lower left and the lower right would be your username, the date, and the time, and if you want, the location. The user has the ability to take that image, they can share it via email, via text, post directly to Facebook, Twitter, Instagram, whatnot. So it lives like an image, just like any other image in your phone. What we realized was the use cases for technology like this, they run so far and wide. It's funny. Mike, when you and I were talking we never thought about using this to aggregate data from around the country, which was yet another use case.

Mike Alkin: Yeah. Yep.

Craig Stack: So what we're [crosstalk 00:50:22].

Mike Alkin: It's funny. Folks, listeners, when Craig and I first spoke, I saw a use case for it from a research perspective and I thought, "Wow. This is really good." It's funny how you start talking and come up with different things.

Craig Stack: And it's funny, right? Because we've spent a lot of time, and we probably had about 65 different use cases. Some of them are incredibly obvious and some of them were very niche but you still stumble into new ones. Excuse me. So, from a consumer angle ... What we're seeing people, and we see these Truepics posted, everywhere from literally dating sites, to used car websites, insurance, as you said. That's an enterprise that we're doing a lot of work with a lot of big players there.

Craig Stack: Right now there's about 32 billion dollars of fraud annually in the property casualty side of insurance. Which is just a staggering number. A lot of the big insurance companies are trying to move to these self-serve claims system. Where basically they're trying to avoid sending a third party adjuster out to review the damage on your car, or maybe the damage to your house. Now what happens sadly, is you'll see a lot of people who take advantage of this. They know that they can snap a photograph send it into their insurance carrier and if it's a low value item, or whatnot, or low value damage, the insurance carrier will just cut them a check, and they'll be on their way.

And so, a use case I mentioned before, people are literally taking photographs of cracked windshields, they google it, they find one on the internet, they send it to the insurance carrier, insurance carrier cuts them a check for a thousand bucks. No one's the wiser.

Craig Stack: So what we can offer the insurance carriers, we can drop our technology ... IF they have an app that existing, we can drop it into that app and take over that camera technology and thus serve them an authentic photograph that they know is real and they can therefore pay that claim and feel good about it. Or we can launch an app for them, if they don't have one and they want one. We're giving them the ability to still not have to go through the cost of sending a third party adjuster out there, but sleep at night because they've got this authentic image or video that they can subsequently pay the claim off of. From an enterprise standpoint, there's a lot of industries that we're going after, but insurance is the one that far and away, when they heard about this gravitated to it and are really embracing it.

Mike Alkin: That's really interesting. So, how do you ... You've got this growing company, you've got all these use cases, how do you prioritize? And how do you think about where you go next?

Craig Stack: You know, that's a great question and it's one that internally we definitely, you know, kicked around. Because there are so many different use cases that we can really help out and we see this on a daily basis. Insurance really was one because of the dollar amount and because that they really understand that this is a problem that they have today. And it's really only getting worse. There's a lot of insure tech companies out there.

Craig Stack: We're all so spoiled with the Amazon Prime and the Uber, where you push a button and you get whatever you want, within five minutes to an hour. And insurance is really an industry that you know, historically moves pretty slowly and people are not happy with, "Hey, I'm in a car accident and I gotta wait two weeks to get an adjuster. Or I've gotta drive 25 miles to this body shop." They're trying to walk this fine line between making it more seamless for today's customer, tomorrow's customer for that matter, who's used to having everything at their fingertips, but yet avoid the fraud that is inherent sadly with that industry. So, we really feel that we offer them an elegant solution to accomplish both. To make it super seamless for the user, but we're all on our phones all day

long. We all snap photos all day long. It's a behavior that no one needs to be taught and to offer that to the client, and if this client paid that claim quicker. It's just a win win. For right now, that's the industry that we're really focused on and once we get even more traction there, there's several others that we're gonna move into, one by one.

Mike Alkin: Well, it's interesting. You said earlier how easy it is. 1.8 Billion uploads. When you told me that the other day, I was [inaudible 00:54:54]. I wouldn't even know how to quantify what the number was. But when you told me, I don't know why, I thought, "Oh my God. That's a lot." But, if you think about that and this is ... A picture's worth a thousand words. Or is it? So, you know, right? And I think about that. For my listeners who are investors, and I'm teaching them how to do primary research, field work and I saw a way to incorporate this for myself, but what it really made me think is there are so many things out there that we see that people try and pictorialize and it really does make us have to stop and think.

Mike Alkin: Because while we can be drawn into the photos and the pictures, and that makes us feel like we're there, it should make us question whether or not we really are there. What we're really seeing is accurate. I was not aware of the manipulation that could occur. Especially, like with that ... When you mentioned iPhone thing, that just shocked me. That's pretty cool. What are the biggest challenges you face as a start up? What is it every day you go in and go, "Holy crap. I can't believe I gotta deal with this again?"

Craig Stack: You know, it's a combination.

Mike Alkin: Everything.

Craig Stack: Yeah. I was gonna say it's a constantly shifting landscape and it almost feels like you're standing on quick sand. But you know, we've been really lucky. We've got a team of passionate people that recognize what an issue this is. Sadly, a lot of times these fake photos get tweeted around, or fake photos with fake news stories and a lot of people are quick to react and it's a lot harder to put that genie back in the bottle. It's often days or even weeks later, before people say, "Whoa, whoa, whoa. That wasn't a real photo. That was a photo that was disassociated with the news report that went along with it." By then, a lot of people have already reacted. They've already

retweeted it or commented on it or what not. And so, we think that there's a really big angle from just consumer behavior as well. Right now, [inaudible 00:57:10]. We're working with a lot of NGOs documenting conditions on the ground around the world.

Mike Alkin: Can you explain to listeners an AGO?

Craig Stack: Yes. So We're working with charities and organizations, literally around the country that deliver aid in some of the toughest spots that one can imagine. As you can .. You think about it, you really don't know if that particular aid is getting to the place that it's supposed to get to. And by the certain date that it's supposed to be delivered by. So, candidly, what we're able to do, is let these people take the Truepic and document that that particular good arrived and that these particular people had it. As opposed to just taking their word for it. And so, we're working day and night with the organizations because we feel that tech can be used to really better the lives of a lot of people around the world.

Mike Alkin: One of the things that I've been thinking about as I look for applications for the app from a research perspective, is there a way, or are you guys working on something that could ... Tell me, because until you get mass adoption, not everyone's gonna have Truepic. But is there a way for somebody to take a picture of a picture and know whether or not that was an authentic photo?

Craig Stack: You know, right now, there's no way to do that with 100% accuracy. The tools that are out there are so sophisticated that you can never tell that it's 100% accurate. One of the reasons that we can, is because we're controlling the capture of that image. So the millisecond that you push that, I'm controlling the environment that you're capturing that image in. If I were just to show you a photograph, there's definitely tools and whatnot and we've got a lot of them, where we could analyze the photograph and maybe score it, call it. Where we could say, "We think there's an 85% probability that this photograph is real," or not. "Or it's been manipulated." Right? But right now, as we speak, there's no way to 100% percent know that another photograph is authentic unless you control the environment in a capture, which is what we do.

Craig Stack: To your point, this isn't something that someone's gonna use every day. If you're snapping photographs of your kids playing little league or your breakfast and you

want to throw it up on Instagram and show your friends. That's not really what a Truepic is designed for. That being said, when you think about validating, pretty much anytime you're thinking about images and commerce. From let's say a rental car. The classic example is you pick it up, right now the guy at enterprise walks around with a clip board and piece of paper and makes some chicken scratch marks if there's a ding or a dent. Right? And often that suffices, and often it doesn't. Often there's a lot of he said, she said. You can imagine if, the same scenario, you literally just hit record, and you walk around taking a Truepic video of the car, and you zoom in when there's any dings or dents, and that's it. It's done. In about 5 to 25 seconds depending upon how thorough you want to be. You know, we're capturing that. We're authenticating the exact day, date and time, and minute. A week later, you return that car, there's no ambiguity.

Craig Stack: And that goes for home rentals. You think about the whole issue with security deposits, Airbnb, VRBO. Right? Simple way, once again, to prevent any sort of he said, she said. Right.

Mike Alkin: And it takes the ambiguity out because there's no manipulating the data on it.

Craig Stack: Exactly. Exactly. And then you think about all the stuff you're potentially buying from eBay motors, eBay itself, to Craigslist. And you get people out there posting things that they don't even own. Could be tickets to a game, it could be ... you name it. A simple way is to just request a Truepic. They might be saying they have two tickets to the baseball game tonight. "No problem. Send me a Truepic, so I know that right now, they're in your possession. Right? Because anybody can get any image, of any item, and literally throw it up there. One of the stats that we came across that we were shocked by was the pervasive fraud on the dating sites. The FBI said they had about 130 million dollars of fraud that was reported top them and they think that's less than 10% because people that go through this sort of fraud, are typically too embarrassed to report it.

Mike Alkin: What occurs? What kind of fraud occurs?

Craig Stack: It's crazy. A lot of it is the classic, all fake profiles and you engage with a person, and you've never met them obviously, but they chat them up for days or weeks and then they do the classic, "I'd love to come visit you. I can't afford a plane ticket. Can you send me \$500?" Or,

“I’m on the road, I just got my passport stolen. I don’t know what I’m gonna do. Can you wire me \$1000?” You’d be shocked at who falls for this. Right? To the tune of their estimating over 1.3 billion dollars a year of fraud on just the dating sites alone. Now, you know, once again, we have a seamless way to really stop this overnight. If you’re communicating with somebody and your spidey senses go up for a second, I simply just say, “You know what Mike, download this free app and just snap a picture and send it to me.” And then if that photograph doesn’t come back matching the same photos I’m looking at and or from the same town. Or the person just won’t send the photograph and they hem and they haw. You know something’s up. Right? It’s a really seamless way, and we think eventually, our tech will be used to basically, have authenticate, or validated, or verified user profiles for that matter, whether it’s on dating sites or other sharing economy sites. Because there’s just so much fraud out there and it’s such a [crosstalk 01:03:36].

Mike Alkin: It’s staggering. You and I were talking, when we spoke last time, we were saying ... I was telling you I think, story of my uncle. And this opened my eyes to senior fraud. My uncle, 76 years old, in good, not in good health, he’s got cancer, but his faculties are there. About a year and a half ago or so, he told me over lunch that he had been defrauded out of \$10,000 by, who he thought, was a family friend. The son of a family friend called him up and said that he was in Coast Rica in a prison, and he was being falsely accused of something. Could my uncle wire him 2500? And he said, “Okay.” And he wired him and then he did another 25. And it was four times of \$2500 dollars and this is a fairly astute man with all his faculties, and he was defrauded out of \$10,000. SO I started to do the little research, and I saw that fraud against seniors is a 36 billion dollar a year industry. It’s not even a cottage industry. It’s a monster industry. So, when you just mention the dating stuff, you say, “Wow, it really is.”

Mike Alkin: That actually got us ... I have developers working on software to address that issue because it is pervasive. So yeah, fraud’s pretty rampant.

Craig Stack: Yeah. I mean, first of all, that’s a sad story and I wish it was rare, but you hear about them day in and day out. You know, the senior industry, as you said, sadly, they get taken advantage of quite often. You know, one of the things that, another use case that we’ve seen with

Truepic and we hope it's gonna be able to help the senior space. People are using Truepic as a virtual, digital time card. Because we can control, capture the photograph and all the metadata, if you've got people that are out in the field or doing whatever, you can simply them take Truepic, either of the task that they're supposed to do, or even a selfie. Right? So we've got a construction company, in Kazakhstan of all places. Every morning the foreman has about 120 odd construction workers take a Truepic selfie when they show up at the work site, and then again when they leave. SO he can document that they're actually doing the eight hour day.

Craig Stack: One of the use cases we've talked about is, is how we can use this in the senior space to make sure they're not being taken advantage of. It could be as simple as, you've got a mom or dad that's a couple states over and you're paying for someone to go there a few times a week for x hours a day and you want to make sure the person's showing up on time and maybe doing certain tasks, and leaving at a certain hour. Once again, you know, require a Truepic when they show up, when they leave, and of whatever task they may do. The beauty of this tech is everybody's gotta smart phone on them and most of us, sadly, have them all day long. So, there's no ability to kind of weasel out of fulfilling that request. [crosstalk 01:06:51].

Mike Alkin: That's fabulous. Especially, I mean there are ... As I was doing my research into the senior market. There's seven million long distance adult children who care for their parents, one or the other or both. You know they live across the country from one another, and you think about that. If they don't require full time care, they may have somebody coming in and seeing them two or three hours a day. One of things we learned is that seniors, if they are not getting the care they want, they come from the silent generation. Where they were raised not to say anything and they suck it up. And they don't want to bother their adult children, because they know they have lives. So a lot of times the care's not being delivered or they're being mistreated and something like what you're mentioning there would really be valuable. Because you could document with photos. That makes a lot of sense. Well that's great.

Mike Alkin: Craig, I really, I enjoyed talking. Anything that I haven't touched on that you think is interesting that you want to mention?

- Craig Stack:** We've covered a bunch. I just invite your users. The app, like I said, it's free. It's True, T-R-U-E-P-I-C. And please download it, snap away and we're constantly adding new bells and whistles, so as time goes on its gonna go from great to even better. Yeah. We really look forward to bringing truth and authenticity back to the internet and to images. We're living in an important time right now.
- Mike Alkin:** That's cool. From a privacy standpoint, if somebody's using it and they ... How do you protect their privacy.
- Craig Stack:** Yeah. So, you're gonna create your username and password and whatnot. We've obviously got a privacy policy just like every other company out there. Your Truepics, you're in control of them. Right? So if you want to keep them private, you keep them private. If you want to share them out to the world, just like every other app out there, that's on you. But yeah, this is something where we've got some pretty highly sensitive organizations that are using this day in and day out. So we take privacy with the utmost concern and seriousness.
- Mike Alkin:** That's great. Well, good. I really appreciate you taking the time. I know it's early for you out in San Diego. So it's quite early for you out there. So I appreciate you getting up.
- Craig Stack:** No. No problem, Mike. Thank you so much for having me and I really appreciate our talk and I look forward to working with you.
- Mike Alkin:** Yeah. Same here. I look forward to staying in touch and learning how we can keep incorporating this into different things we're doing. So thanks a lot, Craig.
- Craig Stack:** Thank you, Mike.
- Mike Alkin:** Well, I hope you enjoyed the conversation with Craig from Truepic. This is ... What I want to do, as I said, we talked about the primary research and I wanted to devote this show to it, because I can't emphasize it enough. It's easy to say, "Oh, just go call people." And this is kind of the blocking and tackling of that. I don't if you heard, if you're a new listener, you wouldn't have, but if you've listened to them, I forget, but earlier in the ... When I started doing the podcast I had mentioned how, one of the hardest things for me to do over the years, and I'm still terrible at it, is really a way to memorialize my work. And I would have notebooks all over the place,

scattered. And I think I mentioned on the podcast, how we were doing some spring cleaning and years' worth of my notebooks disappeared. And I had tried doing all the typing on a laptop when I was talking to people on the phone, and I'm just not good at it.

Mike Alkin: Trying to keep track of the work is hard. Right? Because you're looking at a number of different companies and you're writing notes and it's not easy. One of the things that I did start doing, and I really started it, probably, about a year ago. When I really started writing a newsletter, is I started, really writing my thoughts down. Because on the buy side a hedge fund analyst and as a portfolio manager, you're writing numbers down and you have your notebooks, but the story jumps to life for me from doing my spreadsheets. I don't fall in love with them, but, I take all the information I learn, whether it's industry conditions, what's the pricing environment like, what's the growth rate of the industry, how much units can a company expect to sell, is there a new product life cycle that coming, do they have a product life cycle that's coming to an end, that could affect their growth rates, what's goin' gon in the raw materials, in the cost of goods sold, is there anything unusual that's going to cause something there to cause the cost side of the profit and loss statement to get out of whack.

Mike Alkin: When I'm out in the field, talking to people, I use that information I learn to help form my views to what to enter into my spreadsheets and then it's just math. Right? Some formulas you put into a spreadsheet and from there it tells me what I think the growth rates could be, the earnings could be, the margins could look like. But that all starts somewhere else. And the way we talk about earlier, you can start that by getting company guidance which the management teams will do on earnings conference calls, at conference presentation. They put out press releases. And that's their view. Then there's your view. And my view.

Mike Alkin: And that's how the primary research role comes into play. But the blocking and tackling of it is, you've gotta keep it straight. So, as an analyst or portfolio manager, the numbers do that. But here's all these conversations that you have and a lot of times we go out and take pictures when you're in the field. Whether I'm in the shale fields in Williston, North Dakota, going out and visiting oil and gas rigs and visiting rail terminals. I want to take photos, so that I can remember where I was, what that

was showing me, what it looked like. Am I looking at new homes? If I'm going out and looking at new home developments, do I see a couple built and others just sitting there with no lots being developed? That helps. But if I take them and stick them in my photo, I don't really remember where I put them, because I take it on my iPhone. Who uses cameras anymore? I take it on my iPhone and I don't remember what year it was, or where it was. But I had never really thought, "Oh is there an app that could help me with that."

Mike Alkin: But I started doing more writing when I started writing the newsletter obviously, you have to write. But I found that the writing really helped clarify my thoughts. It wasn't just a mosaic of notes that I would have as an analyst and a portfolio manager, because so much goes in my head. It was for my consumption and if I was going to share it with the general partner who ran the firm. My last seven or eight years, I was with a big hedge fund, I didn't have to do a write up for him or my other partners. We would just sit around in a room, talk about what we're working on. "Here's what we like. Here's what we do. Here's what I'm gonna do." And you'd bandy it back and forth but you didn't have to memorialize it for anyone. It was just a bunch of professional investors sitting around talking and you'd go and execute your trades and do it what you needed to do.

Mike Alkin: But with that, it's all innate. It's all in there. There's so much information. You guys have your regular lives every day. You're not a professional investor, you've got your real world and so, how do you keep it all straight? Well, the newsletter for me is great because I really have to write down my thoughts in one place. And so, ... It's a great research tool. As your developing and starting to learn about primary research and do more primary research, you're out in the field. Right? You're looking at a consumer company, you go do store visits. Or you ... You don't have to make them store visit, you're out with your family, or visiting somewhere. Or you're on a business trip and you see something. You phot it and you catalog it and it doesn't get lost in your iPhone photos.

Mike Alkin: So for me, when I was introduced to Craig I thought it was a very interesting tool and the fact that for my business I can memorialize where I was, when I was, and that can't be manipulated. Now, I would like to know, and it jogged something in my brain. No, I'm not going not manipulate it , but I don't know that others

who are presenting me research, or others who are presenting me anything, they could say they were out at a mine visiting it, maybe they were. Maybe they weren't. Obviously, Truepic is new and not everyone is gonna have it, but there are things to now think about. Right? So it's something I wanted to bring to you as part of the primary research process. Just one of many tools that you can have. And so, there is ... I get zero for having Craig on. There's no reason to have him on, other than I thought it was very interesting. I have no involvement with the company, whatsoever. But I do see that there's an interesting tool that's out there.

Mike Alkin:

So, this was a longer version. Normally the Hedge Fund Corner, where I talk about the process is gonna be maybe 10, maybe 15 minutes. I put this into a full session today because I think it's important. When I look back through my career, and I look back to the biggest calls I've had on both the long side and short side, the best ones, really came with dogged, deep dive, due diligence. Luck's involved sometimes. Timing, of course, is very important. But it really is peeling that onion back. And when you peel that onion back and you keep going, and drilling down, and drilling down, and again, you don't need an MBA or a CFA for this. You need life skills. You need observational skills. You need curiosity. But that's where you're able to catch inflection points. Or catch truths, or falsehoods. And I will regale you with stories over the coming weeks and months of how I have used primary research.

Mike Alkin:

And it's really for me, by the way, and I should say this. When I was starting out as an analyst, I didn't come from a fancy college. I came from a small commuter school. I started out at the University of Arizona and then I wound up at a very small school in Long Island, called Dowling College that went bankrupt two years ago. But for me it was a great, great education. It was a great school and I had a full time job and went to school at night. And you know, when I was able to fight and claw me into a hedge fund, unknowingly. That was not my goal, but once I realized I was there, then I had to fight and claw because I realized when I first got there, "Holy cow, there's some really smart dudes here." A lot of Harvard MBAs, Wharton MBAs who grew up wanting to do this, and I didn't. I have a very good head for numbers. I had an accounting undergrad degree, but I wasn't trained to be a hedge fund analyst.

Mike Alkin: So I realized, luckily I have a dogged work ethic. To this day, I work, if I work less than 12 hours in a day, it's unusual and I'm probably working 15, 16. Work is what I do. I'm always reading. I'm always doing something. And it's not work for me. It's love. It's joy. I enjoy it because it's constant learning. But, I had a really ... The way I was able to prove my worth was to go out and investigate and prove that I could find information that was not readily available. And that's how you create value for the people in the hedge fund industry. You create value by going out and digging and finding information that is public, but not being talked about. Right? So you just have to go and search for it. I think it's a critical part of investing.

Mike Alkin: I often get asked in an email, "What's your secret sauce?" Or, "I want to trade this...". I don't know from that. I don't know from secret sauces. I know from finding a thesis that I think is interesting and then just going to work and layer by layer, and putting that mosaic of information together to form an overall view. So anyway. So no investing ideas this particular show, but I think if I could impart anything on you, I want it to be think about incorporating primary research into your stock picking. And as we go, I'm gonna teach you how to do that.

Mike Alkin: So I hope you enjoyed this show. I will be back next week. Same time, same channel. Have a good week.

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