Frank Curzio's FRANKLY SPEAKING

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: What's going on out there? It's July 6th. I'm Frank Curzio, host of the Frankly Speaking podcast where I answer all your questions about markets, stocks, sports, anything else you want to throw at me on this podcast, answer more of your questions that you send me through my Wall Street Unplugged podcast, which I host every Wednesday. If you want any questions answered, just send me an email at Frank@curzioresearch.com. That's Frank@curzioresearch.com. Be sure to put Frankly Speaking in the headline. And you never know. Your question may be the one I read on this podcast.

Let's jump right in with a question from Tim. "Hey, Frank. Hope you had a great Fourth with the family. My parents came over. Had a few drinks. Smoked some pork belly and brats. The wife made peach cobbler, and then, we waddle over to the lake to watch fireworks. Both daughters actually spent the entire day and night with us. They're 17 and 20, so that's never a given. So hope you had another great Fourth with the family."

It's funny you say that, Tim, and I'll get to your question in a second. But even my daughters right now, who are 10 and seven, it's funny because I always tell them that, pretty soon, you guys are going to hate me. Because right now, I'm their hero. They love dad. It's awesome. You're playing with them all the time. Like you guys are going to hate me pretty soon.

They're like, "No, daddy, we'll never hate you." And I'm like, "No, you guys are really going to hate me. Pretty soon." In those teenage years. And I said, "And then you're going to start liking me like right when you get married a little bit." And then when you have kids, you're really going to like me, because you're going to realize how much of a pain you guys were when you were younger. It's really cool to see at that age that they're spending time with the family. It's just awesome.

Getting to Tim's questions here. He says, "My dad, whose primary interest at this point is income stocks, asked me about a company called Iron Mountain, symbol IRM. As a tech guy, I'm quite familiar with what they do, but haven't looked at their stock. I took a quick look, and it appeared that they're structured as a REIT, which would explain the big dividend yield. But I haven't drilled into it to determine if the yield is sustainable or not. What are your thoughts on IRM? Hope all is well with the family and your daughters are ready for All Star Cheer practice to kick in next week."

Yeah. We're kind of dying for them to go back to school. We're like, oh, I could spend time with them, and then after a while when they're waking up and waking us up in the morning every day, and they're home every single day. They're in camps and stuff like that, it's kind of like, all right, we're ready for you to go back to school now, which is cool. But yeah, things are great, thanks for asking.

So let's get to your company that you're asking about, which is Iron Mountain, and it's for your dad. It's a digital storage company. It has big warehouses that protects basically valuable information. It's a large company. It's a $10 billion market cap. It's a really good company. They have multiyear contracts, which is important. So that means what? Recurring revenue, and it's steady earnings growth. And that doesn't include more customers that they could sign, so you have growth.

Very high customer retention rates, which is 95 percent they're at, which means everybody who really uses this company to store digital files, store whatever, stays with them because they're that great. The company's going to continue to grow, because they store and protect data, so it's a data company, and data is the biggest sector of the market on the planet, by far. There's nothing that's bigger. Everything's going to video, continues to go to video, everything's going faster. Just to put in perspective, data is expected to go from 22 zettabytes to over 160 by 2025. And if you're not familiar with zettabyte, it's the equivalent, in terms of data, of 250 billion DVDs. Think about that. 250 billion. So we're going to go from 22 to 160. You can do the math. And that's not that long from now, 2025.

So you see the massive amount of growth, which means that's great news for this company which stores a lot of this data and protects a lot of it. Now since it's a storage company, it has facilities, it's set up as a REIT. So in order for you to be set up as a REIT, you have certain qualifications, which you're probably familiar with is 75 percent of your total assets must be in real estate, which is why … Total assets, but also generating a certain amount of revenue from it. It's why McDonald's really couldn't become a REIT. It was like 10 years ago, "Oh, they should just become a REIT. It'd be much better." They really couldn't, because a lot of sales. But also total assets must be in real estate. And where they have to pay out at least 90 percent of their taxable income to shareholders. A lot of these companies usually pay out even more than that, even, sometimes 100 percent.

When I look and dig down into this company, it's growing sales by more than 10 percent a year. So it's keeping in line … Probably a little faster than the overall market. Their dividend yield is going to be easily converted by earnings going forward. It says … It may say 7 percent. It's about 6.5 percent. But if you go back, especially with REITs, you want to see the history of them paying a yield, because it could change from quarter to quarter. But the fact that this company has consistent revenue coming in, it's steady revenue. It's a growth business. They have a high consumer retention rate. So it's a steady yield that can be paid. And when you look back annually, what that average is, it's around 5 percent. Some quarters it might be higher. Some quarters it might be lower. But the dividend is safe.

When you look at valuation, this is what might scare people off, because it's saying they're trading around 30 times forward earnings. You say, "Wow, that's much more expensive than the overall market trading at 17 times." Guys, I've made that mistake early in my career. And when you look back at Apple, people are buying Apple, "Oh, Apple, you should buy now, it's trading at 14, 15 times earnings." Apple was trading at 75, 80 times earnings. You could date back to probably 2000s, 2002, 3, 4, I know it was trading at least 65 times earnings. And I looked at this company and compared it to Netflix, which is trading at 95 times earnings at the time, and also Celgene was trading about 40, 50 times forward earnings. Crazy multiples.

Those stocks, I don't have to tell you what Netflix is, right? You probably have, I want to say pretty close to a 10,000 percent gain since 2004. Apple, same thing, massive gains, not as high as Netflix. But if you bought these companies when they were trading at these high valuations, you would've made a fortune. Now how do you separate the companies that are really expensive that you have to worry about compared to the ones that are relatively cheap, but it could be ... Obviously, you look at Celgene and Apple, even though we're trading at those high earnings multiples, they were cheap back then. The stocks went up incredibly, right? What you need to look at is the growth of the business. This is a secular business that's going to continue to grow. So that valuation is justified. It shouldn't scare you off.

For example, if you're going to buy a Kia, you're not going to pay a lot of money for it. If you're going to buy a Mercedes, you're going to pay a lot of money for it. They're basically made of the same metal. Some of them even have the same technology in it now, but it's a much better drive, it's a much better engine, it's a much better quality car. And you get what you pay for, so people are going to buy Mercedes, and they're going to be happy to continue to pay that high amount. When you're looking at stocks, especially dividend-paying stocks, that's why it's so important with this company Iron Mountain, again, the symbol's IRM, is people buy dividend stocks and just look at the yield. And they'll say, "Wow, this is a pretty good yield, and I know Procter & Gamble, and I know Kellogg's, and McDonald's." That's not ... When you're looking at dividend stocks, you have to make sure that they're growing earnings.

If not, they're going to pay you a five percent yield, and the stock's going to be down 15 percent a year, which doesn't make sense, because you're going to lose a lot of money. You want to make sure, because growth means they're going to be able to pay that dividend. It also means, when you see growth, with that dividend, and again, we're going to cover another stock in a little while that also pays a dividend and is growing tremendously, those are the type of dividend companies you want to invest in. That's how you make the money. Not just with the dividend, but with the capital gains. So when I look at Iron Mountain, it does have a lot of catalyst going forward. You're seeing earnings grow. You're looking at a company that's in the right industry. It's not malls and REITs and stuff like that, which one of the companies that we invested in and is doing very, very well and we're up a lot on, but it was specific, and it's like a high-end mall REIT.

But when I look at this company and the industry that they're in, they're in the growth industry. They pay a high yield. They've been around for a long time. It's a $10 billion company. Good management team. But I will say this. When I go and look at a 5-year chart, and you can do this on Yahoo. You're going to see a lot of ups and downs. I mean, January, December ... December 2014, it was 38, 39. And then you have in ... Less than a year later, it comes down to 34, 35. And then you have a nice top in July 2016 at 41, then it pulls back to 33 by close to the end of 2016. And then we had, towards the end of 2017, it's at 40. And then it fell all the way in February to like 31.

So if you look at the chart, I know I'm throwing a lot of numbers at you … But it goes anywhere between 40 and 30. It's not like a steady growth trend, like if you punch up a stock like Netflix or even a McDonald's where you see a couple bumps in the road and stuff like that, but it seems like it's … Over a nine, ten month period, you see it go to 40 and then falling back down to 30, 32, 33. So right now, it's trading at 36. You could probably get it at a better price if you're a little patient. It's not like there's anything crazy going out there. But as long as you have the sector of growth, there's going to be more data that needs to be stored. Much more going forward. This is a company that has cloud technology. It's probably going to have blockchain implemented as well. It's an established company. Again, good management team, good industry, and it's something that I do like. I think it's pretty cool. Don't get scared off about the expensive PE ratio, because it's deserved.

They're a leader in this industry. They're showing sales growth. They're showing earnings growth. They have steady revenue coming in, which means they're going to be able to pay the dividend. With REITs, you really don't know. It depends how much you're making this month compared to next month. With that steady revenue coming in and steady earnings, steady cash flow, they'll be able to pay that dividend pretty easily, which should be above 5 percent. And if you get in like 32, 33, again it's trading at 36 right now, you'll probably see those nice capital gains. Where you get that dividend and also generate returns from those capital gains as the stock goes higher.

So, Tim, hopefully that answers your question. Tell your dad he now owes me a beer.

Moving on, from Carl. He says, "Frank, nice call with England in the World Cup. Do you think that they're going to win it all? Thanks for everything that you do."

Carl, look at … I love these emails because they focus on everything that I said that's right, but to be fair, I said Spain was going to win it all, and England was my sleeper. Which it was a pretty good sleeper, because every time they get into penalty kicks, they've lost forever. And they just seem to like choke in every single World Cup almost. But just exciting times for that team, you're looking at … Look, there's no reason why they can't make the final, right? I mean, they're playing Sweden tomorrow, and then it's the winner of Russia-Croatia. So now they're favored based on that draw, to really make it to the finals, and we'll see on the other end what happens, right?

So I still like the call. I still think they have a shot. I'm loving the World Cup right now. Although, when I saw them play Colombia, I'd never seen so much acting before in my entire life from England. So I could see why a lot of people would hate that team, but I like them. They've got momentum. They look good right now. They achieved one of the biggest hurdles ever since they never won in the World Cup. I think they were 0-4 when it came to a shoot-out or penalty kicks. It's the first time they won. It looked like they were going to lose. They went down early in penalty kicks and they came back and they actually won, which was a fantastic, fantastic game.

So, yeah, I still think they have a shot, still enjoying the World Cup. And it's awesome, the World Cup right now, because why? Because if it wasn't going on, we'd be forced to watch baseball, because there's nothing else going on. So once this ends, we go right into football season, which is going to be a lot of fun since the Eagles are going to be defending their Super Bowl title. So I'm excited.

All right. Let's get to one more question here, guys, and this one's from Kevin. Kevin says, "Hey, Frank. Long time listener, lifetime subscriber here with a question about one of your long-ago recommendations. A while ago, you mentioned that if Trump's tax changes were passed, that you could see KKR converting from an LLP to a corporation. You speculated that this would happen. After it happened, money manager began to add to this name to their portfolios, which would, in turn, drive up the stock price. Do you still think that the share price has room to run since it announced a completion of its conversion and it's already up pretty close to 20 percent year-to-date." He says, "Many thanks. P.S. Are you planning any trips to Alberta to do any boots-on-the-ground research in the future? If so, I'm in Calgary. Would love to take you some site-seeing there."

Yeah, Kevin, I may take you up on that offer. Calgary's a beautiful place, and really nice. Yeah, I'm always doing a lot of boots-on-the-ground and visiting projects all over Canada, and in less than two weeks, I will be at the Sprott Conference, so if you see me there, say hello. I'm trying not to speak at the event, but if Rick asks me, I will. But I basically was not going to go, and now I am going, so a lot of things fell in place for me. And I'm looking forward to it.

It's going to be really cool, and I'd rather I not speak, because this way, I can really focus on finding new ideas and talking to the right people. I already have lots and lots of meetings set up. Especially in crypto, which is going to be a lot of fun guys, so you know, pay attention to crypto and crypto intelligence. It's going to be a lot of new recommendations of stuff like that. It's going to be a lot of fun, just exciting times, going to be meeting a lot of people at the Sprott Conference in Vancouver. Feel free to say hi if you see me walking through the halls. Throw something at me. Do whatever you've got to do to get my attention. And I love to hear from you, like always. I love spending time with my subscribers.

So now let's get to the question with KKR. So if you're looking at KKR, and it's funny, because I want to bring it up here. It's trading at a five-year high. I got so much crap on this stock. I mean, we generated a lot of money at the beginning when I first recommended it, then it came down. Everybody's like, "Frank! This stock's down so much!" And then it drifted higher. But it's funny, because I started recommending this thing in 2013, 2014. Then again. And it did come down from like 22 to 14, which is the max high to the max low. And then, we're paying that dividend, it wasn't so bad, they were always paying a nice high dividend of more than three percent, and it's still paying like a 2.7, 2.8 percent yield today.

But then you know, 18, 19. But it just goes to the sentiment of stocks, right, because here's a company that I nailed, which, again, I always talk about my losers more than my winners. But if it doesn't happen right away, the environment we live in is so different when it comes to stocks compared to just like ten years ago. Everything's real time, and even when I recommend stocks, it'll go up 10 percent, I'll get a ton of emails, "Frank, that's an amazing call!" I'm like, "It's up 10 percent in like two months, let's see." We don't know. I didn't recommend it to generate 10 percent. I think it's going to go a lot higher than that, and possibly double or triple, but let's see where we are. But the immediate reactions that you get now. Everything's kind of like short-term's kind of amazing.

But getting back to KKR as a company that I loved for a very, very long time. Private equity shop, have $170 billion under management. Now let's put that in perspective. The largest hedge fund in the world, Ray Dalio, Bridgewater, has about $125 billion in asset under management. So you look at KKR had $170 billion in asset under management. Now, Kevin was talking about a recent change with the tax laws that changed. So it used to be that private equity companies, what they did was they had an LLP structure, so they're only paying taxes on the fees they charge to investors. This resulted in very good … It's a good tax structure for the owners of this fund, and also for the shareholders, I guess you could say. But now that the new tax laws have passed, now they're going to have to pay taxes on all of its revenues if they switch over to a corporation.

But since the taxes are much lower and got cut tremendously, it makes more sense for these companies to do that. Now why would they do this, because it's going to result in more taxes, is because index funds are not allowed to invest in LLPs. Index funds have trillions of assets. You know, you guys can look up Apple and see how many index funds hold Apple right now, hold Amazon. And how big they are. That's why people are sometimes worried if we see a collapse in that industry and all the selling. It might not be representative of the actual stock, but just the entire sector if something happens with these index funds. Which again, it's speculative.

Anyway, now you're looking at hundreds of billions of dollars flowing into KKR now, and you're looking at a company with what, 14, $15 billion valuation still trading at … It's at a five-year high now. It's trading at 15 times forward earnings. The market's trading at 17 times forward earnings. But there's a lot of interesting stats here that are going to blow your mind. One is that the revenue generation that this company … They generate $1.7 billion in management fees. In management fees, $1.7 billion. On the 170. Which is not 170, I'm going to explain that in a minute. And you'll say, "Wow, that's pretty cool, 1.7." But the great thing is, if you're a management company, you don't set up like a performance fee structure. That's your revenue. That's all you generate.

But they also generate another 1.4 billion on top of that in performance fees. Pretty amazing. So now, look, as a shareholder, I mean look, these guys are going to generate a fortune. They can raise … These guys could actually … If they announce at noon today that they're going to start a new Europe fund called European 10, whatever, 11, because they have other funds that are all filled already, so they just start putting numbers on them. If they announced that at twelve noon, by two p.m. if they're looking to raise $10 billion, it'd be raised, and it'd take them two hours, probably less than that. And that's how much money these companies can raise, especially a couple like KKR.

Now it's interesting, because here's a company that's generating 1.7 billion in management fees and 1.4 billion in performance fees. They have $60 billion of the 170 that they're not generating fees off of. Say how could that be possible? Why would I give a company money if I'm not generating fees? That's not the case. These companies, private equity, they invest in a lot of different things. You have KKR investing in data, but you go on KKR, they'll show you the list of all of their holdings and what they're doing. Now once they sell those holdings, or say they go public with some of these things, the private ventures that they're investing in, they bring in a ton of cash to the company. Say they want to sell that position in first data. Okay, fine, here's like whatever it is. 5 billion, 7 billion. Now that's called dry powder, so you're sitting there with $7 billion in dry powder that you're looking to put to work somewhere else in a good opportunity.

These guys are the smartest on the planet. They know every single politician in every single country. They're everywhere in the world. They're huge. It's kind of like the guys behind everything, that's KKR, these guys are that big. And when you have 60 billion in dry powder, that's money that you're not generating any fees off of, that's going to be put to work. And that's the catalyst here. Because not only are you going to see that, but now, they just went into a corporate structure because it's favorable due to the lower taxes. We have a company in one of our portfolios that did the same thing. We predicted that was going to happen, and it's up a ton.

Why? Because you're opening the door to trillions of more money coming into your stock now. And that's what's going to happen with KKR, because it's dirt cheap, they have enormous growth potential, they're firing on all cylinders, they have ... Imagine fees can go straight through the roof once they put that 60 billion to work, which is the dry powder. And there's just a lot of catalyst for this company now, and it's sitting with the right structure.

So you're looking at a good company, 15 times earnings, high growth, with nearly a three percent yield. What do you want to buy? I mean, let's pull it up. Would you rather buy McDonald's here? McDonald's trading at 24 times earnings.

A lower yield. We can look at some of these things like the earnings growth and stuff like that. And hold on here, I'll bring it up. I mean, you're seeing like normal earnings growth, which is about 11, 12 percent at McDonald's, which is lower than average. I think they're growing about 18 percent as of last quarter.

What do you want to own? I'd take KKR right here. I'd take KKR over just about any consumer staple I could think of, because they have a growth model. You've got to have the right structure in place, more money coming in, it's cheaper, growing faster. That's why you could see this company really … Not that it's going to take off and double from here, but I was recommending this company in the low teens at the beginning, and then it went up to the 20s and came back down, but I could see this thing easily going up an extra 20, 25 percent from these levels very quickly and within, I would say, within a 12 to 18 month period.

You're going to have bumps in the road, just like the markers and trade tariffs and stuff like that, and you may see a 10 percent, 12 percent pullback in the stock, as was seen with banks, which are out of favor right now, which I think are an incredible buying opportunity. It's not going to be the greatest trade in the world over the next month or two, but if you buy banks at these levels trading … I mean, you're looking at some really good large-cap banks trading near their book value, one-time book, which is … You don't see them go lower than that often. And when they do, they usually bounce up, 50, 75 percent. KKR is there. I mean, don't look at the 20 percent move higher and say, "Well, I missed it already."

You know, you could wait a little bit, it might come down. And again, with marked conditions, and trade tariffs and stuff like this, this is going to be a non-story in like four or five months from now. Even Europe is already … The EU's meeting with the US trying to work things out behind the scenes and stuff like that, which is going to happen, and this is just … Let's do this and that, and again, it's all going to work itself out. It'll be perfectly fine, and the US is going to come out on top, because we're basically getting robbed, and the other countries have no choice, unless they want to go into severe recessions, to really make things, make trade fair. And that's going to happen. Not that I agree with the way Trump is handling it, but it is ... I mean, even on both sides would agree that trade policies ... Are structured right now are a joke for us.

I mean, we're actually getting robbed. It's like Apple's suppliers robbing Apple when Apple could go ... Just say, enough is enough, we can go to different places, we can do different things. No. This is the way ... We're Apple, you got to do what we want to do. You can't rob us. We want to make it just fair. We're not looking to take advantage of you, let's just make this fair. And if we see more of that happening, you're going to see some of your favorite names come down, and that might be KKR, and if it happens, it's going to result in a pretty good buying opportunity, so thanks for bringing that name up. It's a name that I haven't talked about probably in a good six months, and it's nice to see that really going higher, because of what I predicted, pretty much like two years ago. And now it's come to fruition again. You just got to be a little patient, guys. And things work out.

Sometimes you're going to see stocks come down a little bit. We got off to a little bit of a rocky start in Curzio Research Advisory, but if you notice, there's a lot of stocks that are doing well, picking up performance, and we've really been knocking it out of the park with that portfolio lately. We had two losers, which was GE and Diebold, but other than that, especially a lot of technology names that we got into earlier doing fantastic and their performance really starting to take off. Just be patient. I know what I'm doing. I've been doing this a long time. Sometimes it might take six months. Sometimes it might take a year. But a lot of these stocks are starting to do well in both of the portfolios, and it's ... Yeah, listen, that's my job, that's what you guys pay me to do, so it's not like you have to pat me on the back or do anything like that.

But, yeah, I'm a big fan of track records and performance and showing you the goods. And that's very, very important to me because it's something in this industry that you don't really see often, and I really love seeing my subscribers make money. That's why I'm in this. It's great, I can sleep great at night, I love to hear these stories saying … I got a fantastic email the other day saying, "Hey, Frank, you know what? I'm an accredited investor finally thanks to you. Been following your advice for the past few years and stuff like that." And it just gave me chills. And I'm just like, all right, that's really awesome to see.

So again guys, KKR, great stock. Iron Mountain, keep those emails coming at Frank@curzioresearch.com. That's Frank@curzioresearch.com. And guys, that's it for me. Have a great weekend. I'll see you in seven days. Take care.

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