THE MIKE ALKIN SHOW

TALKING STOCKS OVER A BEER

Announcer: Free and clear of the chatter from Wall Street. You're listening to Talking Stocks Over a Beer, hosted by hedge fund veteran and newsletter 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 sips 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's your host, Mike Alkin.

Mike Alkin: Welcome to the podcast. It is Tuesday, July 10th, 2018. Took a week off last week. It was the 4th of July, holiday, and gathered and scrambled and bothered potential guests during the holiday week, it's holiday, but a lot of people take time off, I thought I would give you all the break from listening to me. I would give myself a break to recharge a little bit and give my guests a break from having to set out time with the family.

So here we are, but I am recording it. It is July 6th, so I'm recording it on Friday, and I'm sitting here. If you hear background noise, there is nothing, my fabulous sound engineer, Garrett can do to eliminate it because I am at a friend's house with my family on beautiful Long Beach, Island in New Jersey, and while we've had a few great days of weather. It has just been unrelenting rain today, Friday.

It is coming down in buckets with thunder everywhere so I apologize if you hear the rain in the background but it's just a hazard for today's podcast, and I know Garret is a little finicky and he's listening right now, and he's probably cringing at the background noise, so anyway, so we're down here. I came down with my wife and kids. We came down a few days ago, and here at the beach.

It's beautiful. It's funny. This might not make sense to most of you listening who aren't from New York, and New Jersey, but if you're a New York guy. You're a New York guy. And if you're a Jersey guy, you're a Jersey guy or gal or whatever it may be and we have lots of beaches where we are, [inaudible 00:02:28] Long Island and there's 100 miles of coast line, and so I had never really come to Jersey, and it's called the Jersey shore.

The only Jersey shore, I have come to the Jersey, but not to the beaches of Jersey in my entire life, and the only Jersey shore I knew about was the TV show Jersey shore. I don't know if any of you ever watch that. I think it was MTV. I forget what it was. But it was about a bunch of young kids who rented a summer house and a lot of theatrics went on and Jersey shore wasn't my thing I thought.

A friend of ours. They've been coming down here for 50 years. Ever since she was a little girl and so her family comes down and they have a place here and they say you got to come down, so we came down a few years ago and it is just, it's spectacular. It's nothing like I thought from the TV show. It's Long Beach Island is a barrier island that sits right on the coast of Jersey.

I don't know how long it is, but it's not terribly long, and it's very narrow. But it's pristine beaches. We're in a town called beach haven and it's just beautiful. The beaches are, the water is crystal clear. Much nicer than where I'm at, and the beaches are white sandy beaches. Really really nice. So we're here. Kids are having a great time. I leave here today, and I drive to Pennsylvania. My son's in a Lacrosse tournament with a bunch of teens from throughout the northeast and the Mid-Atlantic.

He and I go that way, and my wife and daughter head home, and so that's my weekend coming up, some Lacrosse and as always you hear me during Lacrosse season, I always talk about it, but there's no place I'd rather be and I love watching my son play, and so it's a lot of fun. We get together now, some of the dads were in the next couple nights, and drink a few beers while the kids run around the hotel and it's all good.

So I got to think a lot this week about just markets in general and I was talking to some friends who are not in the financial markets, and they ask how did you do what you do? Most people don't know what hedge funds are, they don't know what my background is, how do you get into the hedge fund business, and well you might have heard me talk about this before. I think I've set if prior if you've listened to the podcast.

If you haven't, I came into the hedge fund business really by happenstance. I didn't grow up on any being a hedge fund analyst. I didn't even really know what a hedge fund was. Grew up very blue collar. Certainly no talk around the dinner table about business. It's just something that was not on my radar screen. Not until really it's my middle-ish 20s, and latter 20s, where even stocks, the markets became something that I even paid attention to. I have an undergrad in accounting but that wasn't really.

Becoming a professional investor was not on my radar screen and through series of coincidences, happenstances, I don't know what you would call it. I was a journalist with an accounting degree at a major financial publication and used to help the reporters with some of their stories, because I understood balance sheet and cash flow statement and one thing led to another, it was suggested by an editor that I meet a hedge fund guy, because he thought I'd be pretty good at it. I met him.

One thing led to another. Next thing you know, asked me a few ideas. I looked for a couple of stocks for him. They both worked out based on my research and I'm a hedge fund and now we're going back over 20 years. I had no idea really what a hedge fund did at the time even. I knew they bought and shorted stocks, but really didn't, I certainly didn't have an investment philosophy. I certainly didn't have an investment style. I didn't have strong views about what makes a good business or a bad business.

I had grit. I had a work ethic. I would work tirelessly. I was curious. I'm a born skeptic. Unbeknownst to me. Those are good traits to have if you're going to be in this business. But so I started out. Many kids come out of school. They know what they want to do. They target the funds they want to work out. I didn't know that. I happen to wind up at a fund that focused on short-selling, and I happen to be around a bunch of really savvy old guys.

They weren't old, but they were older than I was, but they were probably in their 40s, late 40s at the time, and been around the business for a while, and they were short-sellers. That was most of the fund. There was other small portion that did long and short, but with my ability to understand the numbers, my ability to dig and grind and really just be a grinder to find information, to research information, and newsletter writers call it boots on the ground.

In hedge fund world, you call it primary research but it's really research that's independent of Wall Street. It's research that requires you to not rely upon company management teams for their guidance. It's research that requires you to not rely upon sell-side research for direction. You might use sell-side research to get you up to speed on a certain industry because as I and many others are, are generalists which I'll talk about later.

But I think being a generalist is a great advantage. If you're smart and curious, you could parachute into an industry. Spend a few months really getting up to speed on it, understand the nuances, and away you go. But my first exposure in the industry was really just dedicated short-selling, and back then. I have some big thunder going on. But back then it was about, my focus for my

first year and a half, two years, was on the for-profit education sector.

The for-profit education space was a Wall Street darling. It provided non-traditional education to students and many of these students were first generation in their families to go to college, and on the surface it was fabulous. You're offering a non-traditional path to students who might not have otherwise gone to college. Many of them were not just out of high school. They were a little bit older, and who wouldn't want that. Give people an opportunity to better themselves.

During this time period, the government under title IV which is the financial aid portion of it with the financial portion of funding both in grants and loans. They kept increasing them available to students, again a good thing, and sometimes out of good things spring bad things. And in the particular in the for-profit space, what started out very altruistic you would think. Then capital markets get involved and what you saw was companies being able to raise a lot of money.

Go out and buy existing vocational schools and investing capital into them and then turn it into marketing machines. Again if you've heard this before, I apologize but not everyone listens repeatedly, I might have some new listeners. So these schools with this capital turned into really more marketing machines than they did educational machines into a trade school. We all saw them when we were young kids. You're sick on, stayed home from school. You'd put it on and you'd see the technical schools advertising on TV.

Well those were mom and pops and sometimes regional but then the big guys got involved with capital markets money, public companies, and they started going out and getting students and at this time the Internet was just coming around, so you had a lot of telemarketing. You've had a lot, and then the Internet marketing came where they had lead generators, and so you started to see that.

And you started to see more and more campuses being built. Why? Wall Street loves growth, so if you're tapping the public markets whether in the form of equity issuance or debt issuance. They want to see growth that will support that when they decide to give you money either debt or equity. Not all, but what some of these for-profits figured out was hey, these businesses are pretty scalable. We have physical campuses the more behinds we put in seats, the more we're spreading higher revenue over a fixed cost space. That's pretty good.

When they do, they can be like, they went out and did everything they could to recruit students. And somewhere along the way, it came up on mine and other's radar. Actually it didn't come up on mine. Through my work at, I was too new in the industry to have noticed it but some smart guys in hedge fund world said hey wait a second. Somebody's cash flow don't make sense. Somebody's deferred revenue growth doesn't make sense. There's some inconsistencies in the numbers. I'll spare you the boring accounting details.

So we say okay, well, you've got Wall Street who really loves the company. Why wouldn't they? Huge revenue growth. Huge earnings growth. Returns on invested capital through the roof. That's what Wall Street loves. But something wasn't right in the numbers, and Wall Street, when I say Wall Street. I'm talking the investment bankers. The sell-side analysts. They're more than likely going to overlook that. I know all the bankers will. They're in business to do deals.

And the research analysts, they're under pressure from the firm they work at to knock them out and slam company because it's hard to get your bankers in the front door. It's hard to get your bankers in the front door if you are slamming a company in writing. Does it happen? Sure once in a while. How often? Well, about 5% of the companies on Wall Street have sells on them. We all have neutrals which is really in Wall Street jargon kind of mean stay away, but we're an analyst. We really don't want to say that. That's just the hidden message.

But for the most part, and it changed now because there have been rules put in place where analyst can't get compensated for the amount of banking business they do, but back then that didn't exist so you would see a lot of real positive growing reports. So if you are a [inaudible 00:13:50] only investor or if you are a growth investor. And again I'd go back saying I didn't know what type of style investor I was. These appeal to growth investors.

The beautiful thing about Wall Street is you can make money any which way. You can be a deep, deep value investor. You can be a momentum investor. You can be a growth investor. You can be a GARP, growth at a reasonable price investor. There's no one way to make money. These are many different ways and not one of way if right, one of way is wrong. These were the darlings of growth investors, high growth investors, and the big mutual funds were owned and then the stock prices were going higher.

Well, part of my job. My job, not part of my job. My job was to go out and understand what was going on in the field. So I would fly into a city and I would take construction close with me, and I

would rent a car, and I would go to a paint store, get some paint, and I apologize from boring you if you've heard this before. Sprinkle a little paint on me. Get the local newspaper. They all advertise in the paper then. I would walk into a night program.

The night admissions process, and I would say, hey, I'm here. I'm moving here in a few weeks. I want to better myself. How do I do that? And can I get a job like this? Big high paying job that you guys say, because they always promise high placement rates. That was a big deal from them. I would be told that I should take an exam and I took the exam and I just randomly answered anything, I didn't even read the questions.

Every time I was always the best student. They told me I had the highest grade that they'd ever seen and they have a program that could start. And then Seth didn't sit right with me, and then I would go outside, and I'd wait for students to come out on their breaks, and talk to them, and they'd tell me how bad their experience was and started telling me that some of their friends withdrew from classes right away, and they should have gotten a refund but they didn't.

And then talking to people, they'd give me their phone numbers, and you track down these former students, and you talk to them, and they explain what's happening. And then you'd find a former professor or an adjunct. You talk to them. Why did you leave? You start to put a mosaic of information together that this wasn't about providing an education. This was about getting as many students in the seats as possible. If they were through in the amount of time, withhold the registration statement on a certain number of them until they, the time passed where they didn't get a full refund.

A lot of these kids were put in programs thinking they were getting grants, instead they were really loans, and they were straddled with high amounts of debt. Now after several months of doing this, and I started to put that mosaic of information together as did some other hedge funds who were looking at this sector. It really started to eat away at me, because I couldn't believe what was happening to these people. Some of these people that their lives were being wrecked, because they were left with 20, 30, 40, pick a number in debt.

They couldn't fight the big corporation, who's there versus the companies. You went to class. We didn't withdraw you because you didn't withdraw in time. I started seeing more and more of that. I really started to struggle. What I noticed was at the firm I was at stock, and I think it was like $8 we shorted. It was 10, it was 12, it was 14, it was 16, it was 18, and why? Well, because each quarter

they were putting up better and better numbers.

I was baffled by it. Again I'm brand new at the industry. I don't understand the art of everything. The art of investing. To my mind, and to the ones around me. It was, we had the goods. We knew that this company and a few others were not doing the right thing and we would share their information with the appropriate congressional staffers and educational bodies. Nothing was happening. The stock kept going higher and higher.

Drew on for a long time, a year and a half, something like that. The stock kept going higher and higher in through the 30s, and then one day clearly the market tells you you're right or wrong, and so and again I'm ball-parking. I don't remember for sure, it's a long time ago. $8, you put it on, it was until the mid-30s that one day one of the educational departments in one of the states put a ban on them for doing something, and then another one followed.

It started getting more pressure, but the bulls didn't believe it. It was a random one-off educational department that had a bone to pick. It didn't really matter because they would say if it's okay, shut that school down, they still got all these others, and the cash flow is still amazing. So all the stuff hiding in plain sight that was obvious to a bull didn't matter, because it didn't affect really the growth rates, because they can go buy another school to make up for that loss growth, and the stock market kept going up, and up, and up.

Until one day, the FBI raided the one of the camp, the main campus, and then the stocks started really rapidly decelerate but you still had defenders of the stock from the sell-side. You still had defenders of the stock from some of the big funds. I can remember sitting at launch with a couple of the bulls. Sharing my thesis. Just over a conversation and then telling me I'm out of my mind. They were winning. The stock was going higher, and higher, and higher until it didn't, and then it went to zero.

That was a tremendous lesson for me. I'm not sure I understood what the lesson was. I don't know that I articulate like I will now, which was you can do all these research and it doesn't matter what you know. It matters if the market gets it and it matters when the company will start to struggle. So you realize that that now I knew what it is, but it's identifying catalyst, and so identifying when the markets is going to care.

In those types of situations, it's very very difficult because you don't know when something is going to happen but it can, and it does, but you have to size your positions accordingly. But it taught

me what growth investor is, and from there I went to a huge hedge fund and I worked for a guy who's a big growth investors, and it was the greatest education of my life. He was a fabulous fund manager, Joe DiMenna.

It was an MBA on the job. To me, he's legendary, to many he's legendary, but he's a growth investor, and a great short-seller. But what I brought to it was the ability to do deep dive research, to really brought and grind it out, put the numbers together to understand the numbers, but even then after a couple of years in the business, and winding up there, what I would think would be an interesting short. He'd explain why it wasn't.

Because who was I to be the arbiter of value? Who was it to be the arbiter of what somebody else should be thinking even though I knew the work. When does it manifest itself? You have to identify catalyst. When could a company stumble? So that's great education for me, and I've carried with me through the years. And as an investor, through the years, I did a lot of. I'm a value investor.

I look for things that are beaten up, but I think they're mispriced. I'm a terribly growth investor. I don't see, I'm not a big picture guy. I don't have big visions. It's not my strength but what I learned is to appreciate what big growth investors could look. It doesn't mean they're wrong and I'm right. It's all about the timing of different things, and different stages. Early on in a company's life cycle. Companies and investors may be willing to pay up big time and keep funding the company.

That's not earning money. That's burning tons of cash. If the vision and the plan for the future is that eventually it will get there. That really in my career, a long time in my career. I would look at that and say that's crazy. How do you know they're going to get there. You don't, but there are people out there who think they will, so we have to respect that, and there are people who will put a lot of money behind that.

So I learned early on, you can't short just because you've identified some things, the balance sheet or income statement. You got to understand where it is in the life cycle. But that along the way comes the time where these growth companies with big, big promises eventually when they tap the debt and equity markets, eventually they need to start putting up milestones, and sometimes with these companies, they actual realization of those milestones starts to compress the valuation.

Because now the vision is starting to come to fruition. Now you start to see the challenges they may face, the competition they may face, the reality of what they have, execution is always an

issue. But early on, you have to understand that people don't care about that. Investors until they don't can keep funding. A lot of these companies and these very early growth, Amazon is a great example. How many times throughout the late 90s or 2000s did you hear it was a short.

Right, it was a short as they decimated an entire sector. They destroyed the industry and look where they are now and look how many short sells have been carried out on them, so you have to learn these different things and know your limitations and one of the things that I really learned about was Rockstar CEOs. What about, there are CEOs out there that people truly put their faith in and trust in.

That's not my thing but that doesn't mean I'm right. Again like I said I'm not a big growth investor. I'm thankful. I've done okay. I got food on my table for my family. A roof over our heads. I'm thankful. I've been in the business for a long time because for me, it's not work. I haven't worked a day in my life in the last 20 something years. It's just learning and researching and meeting people. It's unbelievable that I've been lucky enough to enjoy what I do.

But there are people, but like I said I'm good at small thing. I'm good at being a value investor sometimes. I made plenty of mistakes, I still do. I'm okay and good at being a short sell, sometimes I made plenty of mistakes, and I still do. But it's all the post-mortems you learned. Identifying the strengths and weaknesses that you have and try and get better each time.

One of the things that always has amazed me is the faith that people put in certain management teams, and CEOs. And again that has to go into your calculus when you're thinking about where you are in the life cycle of a company. Sometimes there's such adoration for a manager that it becomes almost cult-like and people really put their faith and trust and again as somebody, you may not believe in this story or you may not believe in the ability to get there but other people may.

By the way, I've seen plenty of those companies where I doubted the ability to get there, and I do, so again you do a post-mortem and understand what you missed. It's constantly reevaluating where have I been wrong. Because in this business, in baseball, at 300, you're a hall of famer. In investing, you'd like to be right six or seven out of 10 times, but you can be wrong. So you're constantly reevaluating where you are.

Those are the things, big high growth companies, you always have to be careful until the milestones start to come. Really

popular CEOs, they may or may not be geniuses, they may not be brilliant, but they're held to those milestones eventually by the capital markets. Because people will fund hundreds of millions and billions and billions and billions of dollars' worth of capital raises but eventually you need to start putting it up.

And as you start to get closer to the reality of being a business, not a business but being profitable or as you get closer and closer to having debt that comes due or if you have a series of missing milestones. Even those, the milestone misses don't matter to bulls because they all believe in the bigger picture, and you have to take that into your calculus. I have a guest on today, where we're going to talk about that.

He manages a hedge fund and he's known for being a very vocal critic of a lightning rod CEO and stock. Elon Musk and Tesla. For full disclosure in the newsletter that I have, I shared with my subscribers that I'm bearish on it. But one of the things I see. I'm on Twitter a lot, and this talk to me is just unbelievable with the emotions it generates out of people.

One of the things I've learned over the years. I try and keep a pretty level head and I don't get too torn up so I find. I have my view. I don't have a view that, look, Elon Musk has created something I wouldn't even know how to create. He's created a $60 billion business. He's the founder of PayPal. He started with $28,000. God bless him. I wouldn't know how to do that. He's got skills that I would never have. He's called a genius. I don't know if he is, but he's obviously a very bright guy.

He's very bright. He's very capable. He's a great marketer. He's able to really engender this great support by a lot of people. I don't make it personal about an individual versus that. To me, I looked at business, I judge whether or not the milestones have been met. I judge whether or not, I think they're going to be met. The competitive nature of the business. What's the pricing going to be?

I want to fully disclose. I am bearish on it. I do believe that this company has a history of making statements about where they will and the timeline keeps getting pushed out. To me that means a lot. To other bulls I respect their view, it means nothing. They're going to get there. In this particular case, I think that they've gone through a tremendous amount of capital.

They've gone through, they have huge amounts of negative free cash flow, and I think that's going to come back to bite them, but I could be wrong. That's what makes markets. But we're going to bring somebody on and we're going to talk about it, and we're

going to have an open discussion and we're going to learn more, so without further ado, I'm going to bring on Mark B Spiegel of Stanphyl Capital. Mark Spiegel, welcome to the podcast.

Mark Spiegel: Thank you. It's great to be here. Thanks for the invite, Mike.

Mike Alkin: You bet, Mark. So Mark, you run Stanphyl Capital. Tell us your background. People probably know you, which is something we'll talk about in a little while. They know you as a guy who's pretty vocal on Tesla, but tell us how you came to the hedge fund world and give us some background so people could get to know you a little bit.

Mark Spiegel: Yeah. So I actually have a very unconventional background for a guy running money on Wall Street and working on Wall Street. In that I graduated from college in 1983 and I spent the first 17 years of my life in the commercial real estate industry in the burrows of New York city. In hindsight, that turned out to actually be a great education for Wall Street because I dealt with all kinds of real world companies. Mostly industrial companies but commercial companies of all kinds.

I learned a lot about their businesses, and I learned in the real world how business works and how these guys can be real sharks and where I was working in Brooklyn and Queens, they weren't the kind of polite sharks maybe. [crosstalk 00:31:07]. That was a great education and after 17 years I started getting more and more interested actually in stocks and so I sold that company to my partner and I went onto really teach myself financing. Took a couple years off and really read as much as I could about analyzing financial statements and Wall Street history, and even some technical analysis stuff which sometimes is good plus entry and exit points for fundamental divisions.

I did that and while I was doing that I absolutely fell in love with a micro-cap story stock and put a lot of money into them and then went to work for them for a year. They're based on the West Coast, but they had nobody in New York to do sort of marketing and sales for them and I did it. It was the best education I ever had because I paid a hell of a lot of tuition.

I lost the bulk of what I put into the company, but I learned that what goes out in the press release, it can have absolutely nothing to do with what's going on inside the company. That was one great lesson that's turned me into a permanent step after that. The other good lesson was actually how slowly things move inside of a business relative to the crazy stuff that a stock price can be doing. Meaning that so much stock action on a daily basis is just random in a way. It wouldn't be random if you could identify every single

participant and figure out why they bought or sold it.

But for all intent and purposes, it can just be random what a stock does in any given day. Anyway, I left them after a year, after learning a lot and being disillusioned but in a good way. And at that point, I was 42 years old, and I decided I wanted to work on Wall Street with no resume, whatsoever. This is in 2003 when the market were still suffering the after effects of the big crash in 2000.

I sent out a million resumes and one young guy at a small investment bank that it was located both in New York and Seattle said to himself. Hey, this guy spent 17 years in commercial real estate. He helped CEOs find their warehouse, office space, stores, whatever. We're investment bankers and we help CEOs find their money. If this guy can talk to a CEO, we can talk to a CEO. He hired me basically on an eat what you kill basis. They got my licensed. I got a 7 and 63 and then they said okay go bring in some financing deals and you can share the banking fees with us.

I said sure, it was exciting, I had a lot of fun, and I learned a lot, and I did some deals, and then from there I went to a larger investment bank which is not around now, but they had a pretty good presence on the street for a while, and then from there I got recruited to an even larger investment bank, and what I was doing was I doing the whole time these deals that are called private placements in public companies which basically means they were registered direct in type deals for institutional buyers that were not as traditional [inaudible 00:34:35].

A lot of deals done make some money, and at the same time I was investing my own portfolio and most of the time what was long, we deep value micro-cap stocks that I come across in my working day, and this was all done with restrictions. You came from Wall Street yourself, so if you work with investment banks, you have to get every transaction approved, by compliance, you have mandatory hold period, a lot of complications.

But despite that, I did put together a really good record and so in 2009, I left the investment bank. I wasn't getting along with the guy who hired me there at that point and frankly my heart just wasn't in it. I was tired of raising money for companies that I, myself wasn't really interested in investing in, and I just wanted to basically invest and be a buy side guy, so I did that for a couple more years and then I finally I opened Stanphyl Capital in 2011.

It was just a third of it is the usual friends and family money, but I was able to have my personal track record audited for the previous

six years and so I was able to market off of that to show people hey, at least I've got a track record here, so that's the whole story, and mostly what I do actually it is a long-short fund. Most of our longs and pretty much the bulk of the money we've made has been as I mentioned earlier in deep value. Micro-cap companies. Companies with good balance sheets where I can really just buy them cheaply sort of on an EV to revenue basis.

Every year I would find three or four of those and over six months to several years, they would often double for me. They were terrific. What has caused us performance over years. This is actually since 2011 is my short positions. So I was joking with somebody the other day, if I had no short positions at all, and just either own cheap stocks or low in cash and if that were the case, right now I'd be about 80% in cash because I can find almost nothing cheap enough to add these days.

My performance value would have been two or three times what it's been and this guy pointed out to me, he said [inaudible 00:36:57]. He goes yeah, but we always think we're going to be smarter than everybody else, and that's why we always have short positions. That's a lot of the work. My PA is actually up in 2008 when the markets crashed because I had short positions. Anyway, that's what I do and that's in a nutshell.

Mike Alkin: Okay. You obviously when you started Stanphyl, it was natural to be a micro-cap deep value investor, but now you're morphing into back in 2011, you've got a short book to put on. You had shorts like you said even before Stanphyl, so how do you think about the shorts. You've mentioned what you like on the long side. What's your shorting philosophy?

Mark Spiegel: My shorting philosophy is, and I violated this occasionally and when I have, it hasn't done my any good. My shorting philosophy is basically, and this is of course sharing by the way, I'm not the first guy who thought of this. To really avoid valuation shorts and really try to short things that are frauds hat are zeroes or that are just grotesquely overvalue.

I know guys who would be like I'm going to short whatever. Pick a name because I think it's 30% overvalued. To me, 30% is like within the range of the margin of error of a stock market valuation. So I want to short things that are just massive bubbles or things that are frauds which I guess by definition if a fraud is worth anything it's a massive. That's what I look for.

Most of the time, it's been more macro stuff than individual companies. I've been short the yen against the dollar since late 2012. I put that on when USD-JPY was 79, and now it's 110. I

think it was as high as maybe 125 at one point. So we've made a lot of money there. It hasn't been great, but it's cheap to keep on and [inaudible 00:39:05] keeps printing and one day that yen is going to implode, I don't know when but I think it's very low risk for me, and I don't really care if it moves up or down 10% in the meantime, I'm not a short time trader.

Since July of 2016, I've been short Ex-US sovereign debt dollar hedged. And there's a great ETF that's long and stuff, and you can short the ETF. The ticker is BNDX. It's an incredibly low cost to carry, and you've got debt there with the average term that's over 90 years, and it's yielding like 80 basis points. This is absurd. Okay, some of it is Germany which is even for Germany, that's absurd, but you've got [inaudible 00:39:52], and you've got Japan in there. It tends to be crazy macro stuff that I tend to short except of course [inaudible 00:40:02] talking to me in the first place which is Tesla.

Mike Alkin: I was saying in the introduction before you came on. I was telling listeners about my experience with the for-profit education space back in the late-90s and I was new to the industry, and I was a grinder. Like you I came in later in my life and I had an accounting degree, but I didn't understand the art of investing and I went out and I did primary research, I rolled up my sleeves, and the method make sense, and the cash flows and the balance sheet.

We're able to reconcile that with our field work and the stock went from 8 to 30 something before the FBI raided the company. It took a couple of years, and you realize that for me it was a great lesson and it doesn't matter what I know. It matters when it's going to come to light and then I went from there to a really big hedge fund with a great growth investor running it.

There was a great education for me to really understand the psyche of guys who look at big picture growth and that was really my indoctrination into the capital markets aspect of it. How companies can raise a ton of capital whether it's through equity or debt markets on the promise of things to come. And where it becomes a challenge is when they layout milestones and then when some debt comes due or they continuously miss milestones, they have to pay the piper sometimes.

You see a lot of companies where that happens to and that's what attracted me to Tesla in the last six months. I've been aware of it, but I hadn't really been that involved in it, but it's been one that has, it's really mesmerized me in terms of the A, Elon Musk, a lightning rod that he is. People either love him or don't love him. But B, their ability to continue to not meet the milestones that they've laid out, keep pushing them to the right. But investors who

believe in him and the story just don't care, and so talk about what attracted you to Tesla.

Mark Spiegel: Sure. First of all. I've always been and remain a real car guy so that's how I noticed it initially and I started hearing about it when the stock had IPO-ed and I didn't even pay too much attention and as the stock started moving up, it started getting more attention. I first shorted a tiny bit of this and when I say tiny, I think it was, I take big concentrated positions in my fund, and this position I think maybe 1% of the fund if that which would be the smallest as ever.

I did that. I think it was in the high 90s. I think it was around late 2013 when I started to start doing back at the end of the world calculations of how there was just no way this company could ever grow to its valuation at that time. And I started actually writing about it for Seeking Alpha and there's a long, what's the word, archive of stories I've written about Tesla in Seeking Alpha.

Unfortunately they started putting everything that's I think more than 30 days old behind the payroll so you can't access much of them anymore, but it's almost funny if I look back at them so I'm getting a little on the head on myself. So then as the stock got really crazy, I basically got really huge in Tesla in 2014. I have [inaudible 00:43:53]. When it gotten to sort of the mid-200s, and that was what I just considered to be insanity level, and that was four years ago.

And so I had this really big short position for four years, and it's lost me considerably more money than you would think for, let's say a basis in the mid-200s and a stock as I'm talking to you now is at 308 because as it went up and the news got increasingly bad, I went ahead to the position. But then it would keep going up and then I'm like well wait a second. I totally have this circuit percentage of AUM. This time I was way way over the 1%. I was in sort of a more typical position, so you wind up covering.

And then it come down and you think okay this is it. The idiots are finally catching on for what this thing is, and you put it on, and then it goes up, and you go. Just the whips on, it cost me as a percentage of, as a loss in this thing a lot more than you would think. Someone pointed out today that literally today is July 6th, the stock is pretty much exactly where it was a year ago but I've had some good type losses on this thing over last year for that reason because it's just incredible to me where the stock is.

The funny thing is I get calls from guys who would short this all the time because I've been just so forthright about it. These guys, they're experienced guys with a lot more money than I have, and

they're like, Mark, 40 years I've been in this business. I've never seen a greater disconnect from reality for this stock. This is why it's so funny. Yesterday, Musk was pleading and whining about the shorts, which of course is the death bell of any company when their CEO does that.

We stock now, but anyway, I'm just laughing because yeah, I've been talked to some of these shorts. I never knew any of them before we happen to be involved in this thing [inaudible 00:46:02]. All we've been doing is lamenting to each other. Why the hell is this stock going up? Because this is [inaudible 00:46:13] we're completely controlled by the market, and really by the large mutual funds that had been buying this thing, that's why it's so funny how clueless Musk is about how this stuff works. Anyway, that was a long-winded answer to your question, but there it is.

Mike Alkin: That was great. I want to come at this, talking about Tesla from. Let me come it from the eyes of a bull. Like I said I'm bearish on it, but I listen to the bulls and what amazes me on Twitter anyway where I see it is the vitriol that comes out of the bulls mouth when anyone has a different opinion. I go back to Reed Hastings back in 2010 when the CEO of Netflix. When he had Whitney Tilson was very vocal [crosstalk 00:47:14].

Yeah, I don't know Whitney, but I've heard he's a terrific guy. But the way Reed Hastings' addressed it was to come out and say shorting is good for the capital markets. Now let me tell you why I think Whitney is wrong. He addressed it point by point in a very civil manner. But as I hear the bulls. As I understand the bull cases, obviously you have to agree that EVs are superior to internal combustion engines.

They will argue they're safer, the performance is better, your total cost of ownership is better. You have higher residual values. That's the big picture. Of course, you're going to save the planet from pollution standpoint. I do get offended when I see the bulls who say we're doing it to save the planet. Like as though I don't have children and I don't care about pollution or anything else.

When somebody is on CNBC and proselytizing about that, they could spare me that. Now as we get to more Tesla specific. People reference the great master plan that Elon put out, know six. He's going to start with this low volume, high priced, $110,000 roadster and that he's going to use the money from that to scale into a lower model $70,000 vehicle and then use the profits from the S, the model S, and then develop the model 3, so you've got this base case $35,000 vehicle.

I'm doing this for the benefit of those who may not be familiar

with Tesla. For those who are Tesla fans, but we have a lot of listeners, so some may not be totally familiar so indulge me here for a moment. So they'll look back and say well he did that. He did the roadster. He's got the model S, and now here we are, we're at the promised land. Now they've got almost $10 billion in debt, and they've burned almost as much in free cash flow.

But here we are and looking at it, they'll say, well they have a great technological advantage. They've got the auto-pilot. [crosstalk 00:49:28]. We're going to address these. The lowest cost battery pack. They're close to Silicon Valley, right where they have all the talent and they have this massive infrastructure around the country. And that the competition which we'll talk about will have all these stranded assets whether it's Porsche, BMW, Audi, you name it because their entire legacy has been built on these assets that will have to be stranded.

Let's address this and one of the things just earlier when you and I are talking but I said earlier in the introduction about milestones. About when you need access to the capital markets, and you put milestones out there, and debt rating agencies rate you based upon these milestones or equity shareholders have hold you to milestones. With Tesla, the equity holders don't seem to care about the milestones.

We're seeing in the debt, that the debt-holder seeing too, because the bonds are trading down and I think the last I saw was 88 on the bonds and Moody's did a downgrade back in March. But let's address, so for those out there. Are you against electric vehicles? Do you believe in electric vehicles? What's your view?

Mark Spiegel: So here's my view. First of all, I think that particulates air pollution is absolute disgusting. For instance, what the Europeans did faking the diesel tests. Those guys should have and they will, and we did massive fines and some of them should go to jail and they will. Stuff that pollutes the lungs. I am absolute for controlling all of that stuff. When it comes to the automotive contribution to CO2, to global warming. I think it's grotesquely overstated relative to how much man-made CO2 cars is this, and how much of it comes from cars.

Anybody would be far better off with a 50 mile per gallon white hybrid, at least compared to current battery technology. You could buy a full-size Honda Accord or a Toyota Camry which gets 50 miles a gallon than you are logging around a 1200 pound battery that gets 250 or 275 miles, takes an hour to fully charge even on a high speed charger. [inaudible 00:52:06] hand mining the coal bolt for the thing and then how do you dispose of it, and then there's an excellent chance it's being charged by coal or if not, an actual

gas which isn't so bad, but I don't think a 50 mile per gallon car is any worse than that gets.

So I'm giving you a long-winded answer which says I don't think electric cars with their current technology really makes sense and but that's only the smallest part of my short case, meaning that the overall addressable market through it and it's going to be a lot smaller than Tesla bulls think. The bigger part of my short phase is that those legacy makers are coming out with much better electric cars than anything Tesla makes, and they're rolling out right now on the luxury end. Tesla is going to wind up like palm pilot in whatever side the electric car market is. That's what it is in a nutshell.

Mike Alkin: So let's talk about the competition. One of the things. I listen to the bulls. I have a view and I never assumed that I'm right. I always think for where I could be wrong, and I was listening to a prominent bull and he said recently look in the next three to four years, none of these competitors would be at production scale.

Mark Spiegel: This is an example. I'm sorry to interrupt you but that is such a stupid uninformed lying moronic thing to say. The Jaguar I-Pace is available right now in Europe and it rolls out in your showrooms next month at the end of August, and what this guy should do, and what I would do if I were CNBC [inaudible 00:53:53]. I would say let's Google the reviews of the Jaguar I-Pace because that's actually the first luxury EV that's out there.

The other ones were sort of the mass market ones that Tesla has actually never built, and every single reviewer or almost every single reviewer says this is better than any Tesla ever made, and that's a car available now, and this fall, this September. Audi is going to introduce its electric SUV as well Mercedes, [inaudible 00:54:22]. Audi is the e-tron quattro. And they've already shown photos of the interior, both of them, and I guarantee that they are leads ahead of any Tesla, and blow any Tesla away.

The Audi is in showroom in December in Europe and they're both available in US in the spring and the of course Porsche has to take time, which they've been [inaudible 00:54:46]. They haven't formally introduced it yet. That would probably be, my guess is maybe this October. That will be available next year. All of these cars are far superior to any Tesla and they're all available between today in the case of the Jag and let's say 12 months from now. Anybody who says that is either disingenuous or just a completely uneducated idiot with his head in the sand.

Mike Alkin: Yeah. I think one of them was saying that the volumes when these cars come out will be less than where Tesla was in 2013.

Mark Spiegel: Yes, so Jaguar alone has capacity to make probably somewhere. They haven't formally said it, but it's being built in Australia by who's that contract manufacturer [inaudible 00:55:41]. They should have capacity for around 50 to 60,000 a year just for the I-Pace. And to put that in perspective, that's 100% of last year's Tesla model S sales roughly. Tesla roughly sold 100,000 cars [inaudible 00:55:57].

If you think about the I-Pace. The I-Pace takes [inaudible 00:56:02] 20% of Tesla sales and then the Audi takes 20%, and then the Mercedes takes 20%, and then the Porsche takes 20%. Okay, the overall market will grow somewhat from these guys, but basically you're going to see Tesla Model S and X sales starting around mid-2019 whenever these available. We're going to see them cut in half or worse from where they are now. For anybody to pretend.

By the way, some of these cars are being built on shared lines with other cars. I think the Nissan [inaudible 00:56:43] is built on the same line as other Nissans and so it's just nonsense when they say these guys don't want to do this because the legacy. Listen, auto manufacturers don't own gas stations. They don't own a stock in oil company. They just want market share. They don't give a shit whether it's market share in electronic cars. Yes, okay, so it's true that the deal was with a little more service on modern cars.

That's the other funny thing. I hear from these Tesla bulls that talk about modern internal combustion cars as if they were like from the 1940s and still have coins and distributor caps. I have a car, it's a 2013, it goes in once a year for an oil change, once every two years for a brake fluid change, and that's it. These cars, the engines don't even need spark plugs anymore in most of them. So you get 100,000 miles, transmission is good for 200,000 miles.

A new one with a battery pack by the time it's at 100, 150,000 miles. You're lucky if it hasn't worn 20 or 30% of its range. Tesla covers that up by the way by making the pack bigger than they are and then unlocking some of the extra range to give the impression that the degradation isn't so big. And they also replace the packs. And so that whole argument about the legacy car makers won't do it. It's nonsense. They don't want to lose market share, and they'll do what they have to do to keep the market. Plus governments are forcing them to do it.

They're forcing them to either have a certain amount of modern emission cars or they have to buy these credits from companies that do which is by the way the only profitable product Tesla's ever had, and that's going to go away as more electric cars come out.

Mike Alkin: So the other thing you'll hear bull say is that it has the lowest cost battery at peak levels at a cost per kilowatt hour and that they've got all these intellectual property in the battery. So what's your view on that?

Mark Spiegel: Yeah. So a couple of things. Number one that's complete nonsense and I'll tell you how I know that's nonsense. Number one, Tesla [inaudible 00:58:57] huge amount of money on its cars. Okay, at very high prices. That's going somewhere besides SG&A and the other nonsense. Tesla buys battery cells from Panasonic. Panasonic will sell those batteries to anybody who wants them. There's nothing special about Tesla using them and in fact, the entire rest of the auto industry which are all coming out with clean sheet designs.

They could have used any kind of battery design they wanted. They've all rejected Tesla's style of battery pack which is basically wiring together thousands of these little cylindrical cells. The whole rest of the industry is instead wiring together a few hundred of larger cells called pouch cells or prismatic cells. They've made a clear choice for more couple reasons to not do what Tesla's doing even though they could do what Tesla is doing.

By the way, Musk made a good show a few years ago of open-sourcing all his patents. Nobody wants their patents. Nobody cares about their IP or their patent. So Tesla [inaudible 01:00:03] as far as cost goes, based on the fact that Tesla power walls which used similar technologies, it's a slightly different chemistry in the cell but it's similar. They sell them for approximately $400 per kilowatt hour and yet, and that gives a negative gross margin in that business which it used to be able to, it used to be broken out separately in starting in Q4 when they stop doing it, you could figure that out.

My guess is Tesla at the pack level, now the cells, LGs for instance. [inaudible 01:00:41] said that they're paying LG. I believe it's roughly $140 a kilowatt hour for the cells, the cells its using but then you have to package those into the packs, and put the cooling system and the inverter, and all that. My guess is Tesla is probably, they're putting the high cost battery buyer in the industry.

My guess is that the pack level even now they're probably somewhere in the range of maybe 220 to $230 a kilowatt hour. Part of all of this is they lock themselves in with the legacy contracts with Panasonic. The only reason Panasonic agreed to come into the giga-factory and install its own equipment and by the way, they're not a partner, they're a supplier.

They came in and said okay we'll put on a big battery making

machines. So if you commit to buying a certain quantity from us at a certain price, and those contracts were made when battery prices may have actually been a little bit higher than they are now. That's a nonsense argument and anyone will [inaudible 01:01:42] how much money they [inaudible 00:00:00] selling cars at an ASP of $100,000 which is roughly the ASP of S and X before this model 3. You can clearly see that, and the negative gross margins on the power walls. You can clearly see that they're not a [inaudible 01:01:58] of lost cost manufacturer battery packs.

Mike Alkin: So then we turn to the auto-pilot. Bulls will say it's the market leader and people will randomly pick out a crash here or there and there's a RIA I think out of California that or somewhere that's always saying that, well, all cars have accidents or whatever it may be. Where are they in the auto-pilot?

Mark Spiegel: There was a study done a few months ago. I forget, let me see if I can pull it up actually, hang on. That showed among every manufacturer developing auto-pilot that Tesla is actually last. They actually rank at the bottom with their technology. Here it is, let me see who did this study. Just give me a second here, I'm pulling it up. Yeah. It was Navigant, which is an independent expert in this stuff.

Tesla ranked dead last, there's a couple of things involved here. Number one, it's unanimously agreed in the industry that we can't have even partial autonomy without wide-arc sensors, laser sensors. Tesla doesn't use them. It doesn't use them because they're expensive and it's trying to save money, and uses radar and cameras. Number two, Tesla's software is just a disaster.

They had unbelievable turnover on their team and in fact, there was a terrific article last summer in the Wall Street Journal when that group had left, and subsequent to that, I think two other heads of auto-pilot have left, and the reason they left was because they warned Musk that he is promoting this system way beyond its capabilities. That it was nowhere near as autonomous as he was making it out to be, and he said he was going to do it anyway, so these guys left, they said crew it, we're not going to jeopardize people's safety and be involved with this thing.

The cars, they took them all off ramp and that's killed a few people. The automatic emergency braking which by the way you can get at a $19,000 I think Honda Civic now. These things, that doesn't work. They have two tests in the last two weeks done by European TV network where they showed it just crashing into something and their test, the newest one was done in Luxembourg I think this week, and the Volvo just comes to a really nice stop.

Their system is terrible and no one with a straight face has done a research about it can claim anything otherwise. Now, what Musk did was, Musk is a very reckless guy and he just unleashed this system out on public roads which is [inaudible 01:04:47] for anyone else who happen to be unfortunate enough to be on the road at the same time, and it's like responsible auto-makers just wouldn't do it. They wouldn't promote it the way he did it.

They required hands-on wheel the whole time, Cadillac just stand out with the system called Super Cruise and actually has eye sensors built in and if your eyes leave the road, it shuts the system down on you, and Musk just doesn't care about any. Musk thinks the rules don't apply to him in any possible way. Labor relations, charities laws, you name it. This is just part of who he is and it's going to be, it's part of what's going to bring him down, besides all the money he loses, because as far as I know, the guy's never run a business profitably and he sure as hell doesn't run Tesla profitably.

Mike Alkin: One of the things that struck me when I really just started to spend a lot of time looking at it was the amount of management senior executive turnover. To me, it was pretty startling and I think you put out in one of your presentations a list of it, and so that kind of turnover, and again every company has turnover. But I was listening to one of the Tesla bulls. I think it was on Grant Williams podcast, I was listening.

I forget where I heard it. But saying, you know what, that's not concerning at all. This is every company has turnover, and it's nothing out of the ordinary and to me, it is. But what's your view on that?

Mark Spiegel: Don't take my view. Take the view of [inaudible 01:06:17] recently said the only time he's ever seen anywhere near that much turnover was with Enron and [inaudible 01:06:26] millions of dollars of stock options on the table just to get the hell out of there already. In March, two of the top three people in the accounting office left at the same time and left behind all kinds of options.

There's something wrong there. It's almost like these people are like, I'd rather not have my option than be in jail. It's crazy what's going on there. It's going to be really interesting to see how this continues to unravel because you don't get all these people leaving for no reason.

Mike Alkin: You said earlier, you'd talked about the shorts, talk to each other. You're not sharing information but it's lamenting about how is this stock getting here. You think about the investor base, it's obviously a different investor base. They've been okay with funding this negative free cash flow and they're heavy spending, the way they

look at it is the heavy spending on R&D and Capex is all going to jail and come together, and they're okay with that as long as you're seeing that 60, 70% growth and they make the argument that other investors who support traditional car makers wouldn't let them spend $5 billion on a giga-factory. As long as that growth is going to come, it's fine, and that leads to the model 3.

Mark Spiegel: By the way, just to point out, even before model 3. It's been completely not only have been profit-less growth but the losses have scaled up with the revenue. There's no business model here at all. Okay. Go ahead. You were, sorry for interrupting.

Mike Alkin: No. That as a short-seller, you have to understand and you do who's on the other side of this. So now you're in a recently I think there was something out commenting about the Moody's downgrade how it was quite curious and it could have been driven by the short-sellers because it's downgraded at the end of March because they were a week before production numbers came out.

But when Tesla issued those bonds back in August of '17, it was based upon and Moody's wrote this in their report 5,000 vehicles a month throughout 2018, so those were the milestones that Tesla had put out there.

Mark Spiegel: No, 5,000 model 3s a week.

Mike Alkin: Model 3s per week. Yes, model 3s per week. So clearly that wasn't met in the first quarter and now, in the second quarter you come out and the Tesla bulls will jump up and down and say you got your 5,000 model 3s in the last week and now they want to hang their head on that. Now the stock was what? 370 at the time and it's now 310.

Mark Spiegel: Yeah, because obviously that was total bullshit because he work the lines 24/7 which is unsustainable. He worked his employees to my understanding two 12 hour shifts a day for seven straight days. He cut back on the model S and X production because there's been very good research on Tesla Twitter for the bears which is completely fact driven unlike anything from the bulls has been terrific.

One guy who's an environmental engineer called all the [inaudible 01:09:58] and did all the analysis and figured out that on a steady state basis, the current Tesla paint shop only do 5,000 cars a week in total. So clearly what Tesla did to claim they built 7,000 in that last week, they started with a bunch of roughly 5,000 model 3s and 2,000 S and X. They started with a bunch of cars that were only mostly completed.

They ran everything ragged and the proof of that is another guy in Twitter who's excellent at monitoring factory production. He actually somehow watches the factory date, has shown that in subsequent to the end of the last day of June was back down to producing a few hundred cars a day in total, and fewer than that the model 3. So the whole thing was a transparent stem that Musk tried to pull off. That even the dumbest of the bulls apparently sought those.

Mike Alkin: So what do you think, what is the end game. Because I think about this. For me, the way I view it is, look and I said this in the intro. I couldn't have built Tesla, I don't have that vision. I don't have the ability to go market, to go get people rally around me, so I give Musk credit for being able to put together the, put the roadmap together to build the roadster, to get the S.

Personally I think they should have stopped there because I, and call me old fashion but now you're going, you're playing with the major competitors who've been doing this for 100 years, who test vehicles for five years and I know the bulls listening to this are going to say, I'm a dinosaur, I have no idea. It's a tech company. It's a new-new thing, and I'm ancient. Okay, good. I'm guilty of that.

But this is now where execution has to come into play and you have $10 billion in debt on your balance sheet. You have a billion coming due in the next 12 months so now you have to start hitting these milestones. What's going to propel? When you sit around and say where am I wrong? What enables them to go from burning massive amounts of free cash each quarter to now all of a sudden being able to generate.

Because the thing I can't understand is at 350, 60, 70, why aren't they not raising capital? Because it would seem to me and they put out in their press release. We are going to be profitable in the second and third quarters. I'd almost feel as though at 350, 60, he would have plenty of people from the bull camp who would finance that. What is it? Why aren't they raising capital? And what do you think? How does he get there?

Mark Spiegel: All right, you're asking [inaudible 01:12:46] question. So let's talk about how he gets there. They can never get there at this point because they have too much accumulated debt morphed at 10 billion, the interest [inaudible 01:12:58] on that alone is $600 million a year. Elon Musk is a complete ignoramus about many things but particularly as far as the car business goes. And nobody could ever work for Musk, actually instructing to how to do things because for whatever reason. [inaudible 01:13:20].

The market isn't big enough to support the SG&A and everything it takes to run that company so I wrote a Seeking Alpha article about this a few years ago and this is to your point by the way. They might have had a chance if they focused on sort of being niche luxury producer of electric cars and if their ambition had been maybe to grow to the size of Porsche [inaudible 01:13:56] 250,000 cars a year, maybe 275 now.

That has been their ambition and they're willing to be profitable all the way up and were actually scaling but that's not what Musk wanted to do and now the only hope for these guys is to put in the chapter 11, wash out all the debt, recap the company and drastically shrink things down and take it one day at a time. But at this point, it's too late for that because [inaudible 01:14:27].

The technology I guarantee you the technology on the Porsche and the Audi and the Jaguar is far more impressive than any technology in a Tesla. For one thing, those cars could run continual laps around the race track without overheating whereas a Tesla Model S and X goes into limp mode after about a minute and a half of full throttle driving. The model 3 may be better because it switched to a different kind of motor.

So the new Audi electric SUV is going to have actually three motors on it. The Tesla has a [inaudible 01:15:03] motor. Their technology, I'm telling you the palm pilot. The bulls may not want to hear it but I'll tell you. Let me take a step back and I'll answer your financing question. My longtime girlfriend. She's very smart, she knows nothing about cars, nothing about finance, she's a medical doctor.

But she's smart and about two years ago when I was lamenting about how the market should be seeing everything that's happening now and should be a discounting mechanism. She said to me, she said, listen, the stock may not collapse until the Audis and the Mercedes and the Porsches are in the showroom and people actually believe and can see how inferior Tesla is to those guys which by the way, as an aside are all going to be priced lower than the similar Tesla model.

The Jaguar starts $10,000 less than the least expensive model X. When the Tesla's tax credit start running out later this year, it's going to be eventually it'll be as much as $17,000 cheaper [inaudible 01:16:10]. The Audi electric SUV which looks spectacular looks to be approximately $12,000 less than the cheapest model X. The Porsche Taycan looks as if it were priced about the same starting price of the starting model S around $75,000 and of course the Porsche will get the tax credit. [inaudible 01:16:29].

Anybody who buy a Tesla when you can buy the Audi, Jaguar, or Porsche for actually less money. You'd get the [inaudible 01:16:40] technology. To your financing question, at 350, I doubt that any deep-pocketed bulls would have stepped up however I'm an ex-capital markets guy from my investment banking days. When you have stock trading an average of eight million shares a day at $350 a share, so you're doing what? Both the $3 billion a day of trading.

You can always do an equity deal if you make it a sweet enough discount. They don't have to be bulls or long-term investors. You could quickly raise $2 billion selling the stock discounted 7 or 8%. Guys will blow it out the next day, and so what. Tesla will have its money and could go on from there. They didn't do it. There's a lot of theorizing going on but with no proof yet, but get no denial from Tesla that there's a major SEC investigation going on at Tesla that they may had either been served with a Wells notice or may have been notified that they're closed to being served with a Wells notice.

And the Tesla has been unwilling to disclose this and therefore hasn't been able to file a registration statement to get a deal done. It's all speculation but it's all informed speculation. Again some guys have put two or three charts on Twitter with all the circumstantial and by the way, admittedly fully circumstantial evidence for it. So that could explain why they haven't raised money that they're having SEC problems.

Mike Alkin: It's interesting. You've seen a lot in your career. I've been shorting stocks for 20 years plus I've seen a lot. That would be beyond the pale to be in possession and not notify or to be aware of and not.

Mark Spiegel: Well, believe it or not. It's actually legal, there was some case on it which I looked up and you are not required to disclose that you've received a Wells notice as a corporation. Now doesn't mean you can sell press stock that way. I'm not sure what the legality is of that. I'm 100% sure that no major investment bank would take the liability of underwriting your deal if you're under a Wells notice and been disclosed.

So they could be under one, despite the fact they haven't disclosed it and that could be legal but it could explain whether or not raising money because they don't want to disclose or maybe they couldn't find an underwriter if it were disclosed.

Mike Alkin: Yeah. Okay, so now the bulls will say that this is the ramp we're going to see. The 5,000 model 3s, you explained why, they're building at a tenth.

Mark Spiegel: Well, only some of them in the tenth.

Mike Alkin: Only some of them.

Mark Spiegel: Musk says he's better than the other assembly line in actual building that they said billions of dollars. I don't know what that mean.

Mike Alkin: Yeah, exactly. Give me the where you're wrong scenario. How do they get to this, at this point the company needs the model 3 to be a success and very fast. How do they get there?

Mark Spiegel: The problems of [inaudible 01:20:13] on the model 3. Musk has effectively got everybody to focus on production. This is one of his skills is trying to steer people into where he wants them to look at the shiny object here, don't look over there. When in fact, he finally admitted I think a month or two ago that he basically tweeted that they can't build a $35,000 which is the one that was promoted to the world, in a lot of ways the media outlets [inaudible 01:20:45] at the base price.

He tweeted we can't because we lose so much money on it that Tesla will die. That was his words. Tesla would die if we build a $35,000 [inaudible 01:20:57]. So, he keeps putting off and promising it for some time next year and the problem is there is nowhere near 5,000 a week steady state demand even worldwide for a model 3 that starts as it does now at $50,000. There just isn't enough demand.

Tesla doesn't want to admit that. People who monitor and again great work on Twitter on it. They monitor the forms and the spreadsheets and people who come in and say have you configured your car yet? And they calculated what percentage of the overall buyers, these active people are, and they just come up with serious demand problems for this car.

By the way, it's not that it won't sell at all. At 50,000 and up, maybe they could sell worldwide, I don't know 120,000 a year of them, 150,000 a year of them. In the best case, 3000 a week. There's going to be demand for 5,000 a week. This car will not get them profitable. [inaudible 01:22:04] was for the $35,000 car, and they say and go that they would lose too much money on it.

Mike Alkin: I assume Elon Musk wouldn't want to take advice from you but if you were giving it to him. What would you do if you were Tesla right now. Obviously with the debt, you're scaled to the company size that you are with the expectations of model 3, but how do they turn this around, and it's very funny, we're actually talking about turning around a company that stock price has gone parabolic over the last several years.

I do chuckle when, and I know the bulls get very angry and they talk about how brutal it is that the stock. Look at the stock price. They're winning. They've won so far, so they get all worked up and I don't know why. They've won. What do you do if you're Tesla?

Mark Spiegel: Well, by the way. Look relative to the NASDAQ, it's a huge trail over the last four years actually. But they've certainly won from $35 a share in what early 2013 whenever. Over a long time, it's stalled out for somewhat lately but they've won. There's no question. So my answer to Musk would be you got to throw this thing into a 11, you got to get rid of the debt.

You got to restructure it, and you just got to scale everything way down. But listen, Musk is one of the biggest hypocrites in history. The guy says he's saving the world meanwhile, he flies all over the world including weekends jaunts with an actress girlfriend in a Gulfstream G650ER which is the largest non-airliner, private jet you can buy.

He just uses that like when I would hop down to the supermarket for an hour. He owns multiple connected mansions in Bel-air. His bigger hobby in front is launching rockets. How much CO2 does one rocket put out? How many cars worth of that? The guy is a total hypocrite and if you read his bio, he was a geek that nobody liked when he was growing up and so now he likes to throw the money around and date the actresses or the lackey singer he's dating out, Grimes, and that [inaudible 01:24:38] real cash.

He would not be happy if Tesla were restructured and another 3 or $4 billion market cap and made a few hundred million a year, that's not going to support the lifestyle this guy is living at. Much less the margin calls he get. He's already borrowed against 40% of the stock and at a certain point and we're not sure where the number is, he's going to get slammed with some big margin calls which I guess wouldn't matter anyway if he throw the company into 11 and just started it over.

But that's really what he should do, but [inaudible 01:25:14] but it's not going to matter. He's not going to have the say in it. His creditors will do it to him or his suppliers will do it to him.

Mike Alkin: I guess a few weeks ago he's very active on Twitter as everyone knows. He was out talking about three weeks to shorts, and it's going to be the short burn of the century, and right before they announced it, the numbers he tweeted something about who like short shorts with a video. So I guess he was talking about the numbers he was going to put up because he might have miscalculated there because the stock is down since then. I've

heard other bulls speculate that that no, that wasn't it, but there's probably a big investment coming. How do you think about that from outside investment at the Tesla?

Mark Spiegel: So a company that has a large strategic investor about to come in doesn't layoff across the board as he did a few weeks ago 90% of its workforce including lots of engineers that he would need to grow this thing. If you really wanted to be able to make a model Y and a new roadster and a truck. And by the way, the model S and X are now six years old and made a major re-press.

You can't be just laying off all these engineers and all these salespeople. The top execs would not be fleeing in [inaudible 01:26:46] like rats leaving a sinking ship if there was fresh money coming in. Musk will put them aside and say guys, I know things have been popped lately but just hold tight. Another two weeks or so, we should get this big injection from dumb Chinese company A. I don't think any of that is happening.

Now they could announce a Chinese factory. Supposedly they [inaudible 01:27:11] although this new trade war between China and the US may throw a wrench into that. We even talk about it but starting literally today every Tesla being sold in China is getting slapped of a 40% tariff. China was over 20% over tariff with automotive sales last year, or the 15% tariff. Now there's a 40% tariff.

So you can kiss China goodbye for this company as long as that's around. But so maybe they [inaudible 01:27:40] factory. But the thing is A, that were not being invested directly in Tesla. And B, the big Chinese conglomerates have realized that in any kind of a build versus buy scenario, it's cheaper to build. So they're doing startup electric car companies or they're putting money into ones that are a few years old because basically you could design an electric car and build a factory and do whatever you want to do for I don't know, 4 or $5 billion and have the whole car engineered maybe two models. The factory, everything, sales setup, maybe $5 billion.

Well, I don't know if somebody pay a Tesla [inaudible 01:28:24] $70 billion which it is with the debt. They're a victim of their own size. I think whatever he announces would not be meaningful. Frankly, he's not acting like a guy who's got anything to announce. A guy like that doesn't whine and whine about the shorts and fire all these people and do the crazy stuff he's doing. He confidently sits back and springs it on them. That's not happening here, I don't think.

Mike Alkin: Well, anything I didn't touch upon, Mark, that you have on your chest that you want to talk about?

Mark Spiegel: Well, one thing we didn't talk about is we talked about the financial reasons why this company isn't going to make it and we talked about competitive reasons why they're really screwed starting now and over the next let's say 12 to 14 months. We didn't talk about Elon Musk himself who was just a, in my opinion, continually commits securities fraud for misleading and by the way, there are lawsuits out there citing lots of examples of this.

All kinds of misleading guidance, misleading predictions, it's funny. Bulls will say yeah, that's just Elon. He's just optimistic. That's how he works. He sets stretched goal. You know he doesn't really mean it. Well somebody [inaudible 01:29:52] conference call which is by the way, when this all started, I had no opinion of Musk. It's not like I shorted this originally because of Musk. I shorted it because of the financials and the business.

Starting a few years ago when I heard him on the conference call, and he said [inaudible 01:30:10] for anybody, everybody pays full price for a Tesla and at the same time, he could have gone up on the, not their website, on this other website that tracked it, and pulled hundreds of brand new inventory cars at four and five figure discounts with [inaudible 01:30:27]. They had the discount referral program now. [inaudible 01:30:31].

First time I heard that, I'm like okay, that's just fraud to say that when this other thing is going on. It's going beyond a bad business model. This guy is a liar and is another very good reason to be short this thing. I can say a lot more examples of it, but that's the third tier of this thing. The financials, the competitions, and Musk's frauds and the claims. That's the third tier of why I think this company is not going to make it.

Mike Alkin: I really enjoyed speaking with you. For anyone listening, you and I have never spoken before today. I chat you a Twitter DM and asked you to come on and you were gracious with your time and I appreciate it. I think we spoke for a couple minutes before we started the recording and we were saying how we're both on Twitter and there's never a dull moment with this company unlike anything I've ever seen.

Mark Spiegel: Yeah. Well, exactly. It's certainly the most entertaining science scam I've ever seen and just because of how big it is, and how much press it gets, and on some level I'm going to miss it, but you know what, on another level I've [inaudible 01:31:47] for four years, I'm ready for it to just be over already, so thank you very

much for having me on the show, it's great. It's a lot of fun. If you're ever in New York, let me know and we'll grab a few beers.

Mike Alkin: Absolutely. You bet. Thanks, Mark.

Mark Spiegel: Take care. Bye.

Mike Alkin: That was Mark Spiegel. I hope you enjoyed my interview with him. Mark and I just met for the first time today over the phone. We touched base a couple of times on Twitter. But he surely is a vocal critic of the company and of Elon Musk. He's been in short the company for a number of years as you heard him say. My views on Twitter on Tesla are, well, look.

For me, I look at it from a business standpoint, I'm doubtful that they'll be able to meet their targets, but hey, like I said I don't like on Twitter. It's become a lightning rod and it's become a war of words between the bulls and the bears. That bothers me because people have opinions. Bulls and bears make money. Sometimes you're right. Sometimes you're wrong. This has taken.

This, on Twitter, it's at a level that I have not seen before, but on one hand, it's entertaining, on the other hand, you say wow, people just have different opinions but that's just my view so for whatever that's worth. Anyway, I hope you enjoyed it, and I just did want to share very hotly contested companies. Have a great weekend. We'll speak next week. Thanks.

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