Frank Curzio's WALL STREET UNPLUGGED

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

Frank Curzio: How's it going out there? It's July 18th and I'm Frank Curzio, host of the Wall Street Unplugged podcast, where I breakdown the headlines and tell you what's really moving these markets.

As you know, listening to my podcasts and Vancouver right now, just brock conference in lots of companies being able to some of my best contacts in the industry, including [inaudible 00:00:40] Tousley, Jess Fells, Rick Rule, Van Simmons, lots of lots of names. They have great ideas. We will, once I get back. Be sure to listen to Friday's, Frankly Speaking. I'll cover some of those ideas. Of course the best ideas are going to go for my paid clients who's a for my subscribers of course. But I'll talk about some of the trends I'm seeing in an industry that's completely beat up. You guys know what happens when that cycle turns and it hasn't turned once, right? Which were able to time pretty well in early 2016 and you can see those gains, three x five x 10 x pretty easily when that happens.

But overall it's been a horrible industry. We did take some bruises on our portfolio, but I want to get the scoop from some of the best companies going to have probably 100 to 200 companies there and I have tons and tons of meetings set up. So be sure to listen to Frankly Speaking podcast. Also, if you have any questions or anything on that conference, make sure you email me Frank@curzioresearch.com. And that's Frankly Speaking's another feed. So you have to go there and find it on iTunes. Frankly Speaking, or you can just put my name in there, click subscribe and then I take questions from you guys.

Whatever you need. Ask me whatever you want. FrankCurzioresearch.com. And that's just a Q&A podcast for those of you who have not been there before or listened to it.

So since it's a busy week, always want to put together a great interview for you and this one's going to be fantastic. It's my good friend John Petrides. Manager director, a portfolio manager at point view wealth management. He's guy you've probably seen often, CNBC, Fox business news gets called upon a lot in the media. Why? Because he's a good stock picker and a great, great analyst and I really love having this guy on. I really do. And I get incredible feedback because you're going to see during this interview, which we're going to cover earning season and we're really going to cover it and break down all the numbers. What to expect, what conference calls to listen to. The red flags that you could spot and somebody's conference calls. The winners or losers and sectors and like John always does, he's going to share a lot of individual companies, companies that he really likes, companies that maybe you have to avoid. Again, right in the middle of earning season by listening to this, I'm being dead serious here, you're gonna know more about this earning season than probably 98% of investors out there. That's how much we're about to cover. And you know what? Let's get to that interview right now.

John Petrides, thanks so much for joining us again on the podcast.

John Petrides: Hey Frank, great to hear from you. Thanks for having me back on.

Frank Curzio: Well, I always love having you on and my audience loves having you on. Right ahead of earnings season because we really break this down, because it's

important and we're cutting junkies. We love this stuff. Love listening to conference calls. Love seeing everything that's going on. And for me, and I know you as well is what we're expecting. And I want to set the backdrop here for everyone first before we get started because last quarter we saw 27 plus earnings growth more like 24%, which is incredible. Strongest since 2011. Sales growth is really strong. Grew 8% year over year, also highest in about seven years. So we're not just talking straight from tax reforms. It's more than that at which tax reforms obviously contributed. Energy led the way with something like 80% earnings growth year over year. But that number's a little misleading because we came off at such a low base, but if you look at materials, tech, financials, very strong last quarter, real estate, consumer staples, healthcare, were the three weakest showing less than 10% earnings growth.

Now we're heading into the second quarter. Expectations are high. We're looking again for 20 % plus earnings growth, which I've … What I found interesting, when I'm breaking down these numbers is last quarter ahead of earnings and this is around March. We have analysts have predicted April 18% earnings growth and turn out to be 25%, but they have forecast at that time appears to be 500 was for it to grow 16% over the next 12 months.

Now fast forward to today, this is gonna get to everything we're going to talk about here. They're expecting around 20 to 25% earnings growth again, these analysts expecting short, strong sales growth but they actually lowered their S&P 500 target from 16% to 13% when we're trading at the same level as that we're trading in March, which means what has changed because now it seems like these guys are seeing a little bit of risk on the horizon even though everybody's talking about the positives. Again, just

wanted to set that up stage is yours John. What do you think?

John Petrides: Yeah so you know, bigger picture. I am a bit nervous coming into the earnings season. I mean 20% earnings growth expectations year over year this late into the cycle. Man that's a high hurdle to jump over. And what I'm fearful of is there are three variables that analysts have a hard time just because the nature of the variables, calculating that could throw earnings for a loop.

The first one is the strength of the dollar. The US dollar was very strong in the second quarter on the back of obviously the Fed raising rates talking about a fourth hike by the end of the year. You had the elections in Italy was through concerns into Europe. Trade [inaudible 00:05:50] were concerned into China and the rest of the global economy. So the dollar was a place for safe haven and now about 40% of the earnings of the S&P 500 are outside the US. They have international exposure. So a stronger US dollar could actually hurt corporate earnings from an FX translation. So that's number one.

Number two, maybe it's a little early in the game, but it's gonna be interesting to see what the trade tariffs that have been imposed so far, if they've had any impact on cost of goods for companies, particularly in heavy industrial space that have exposure to steel and aluminum and also what will comment from management from the CEO and the CFO about future earnings and the impact of tariffs because it's not … As we all know, with stock it's not what you report, it's what you guide for. And if you could have a company that beats on earnings and beats on revenue but guides lower going forward and the stock could be off 10% that day. So I think that's another variable.

And the third one is listen. Energy, the price of oil has been above $60 for the entire year and cracked $70 per barrel during the second quarter. So that the price at the pump on a national average is about $2.96, just below $3. That's going to have impact on transportation costs and other costs of goods for companies. So that could impact margins as well. So, with a backdrop of a 20% increase in year over year from analysts' expectations, you have three wild cards out there that could impact earnings. Now, the only saving grace to this in my opinion, is that the price to earnings multiple, the PE multiple is at about 16 to 16 and a half times on a forward earnings basis.

So what does that mean? That's about where the market has traded on average for the past 60 years, six zero. So we're from a [inaudible 00:07:52] standpoint, we're at about average. I'd be significantly more concerned if we had a 20% earnings growth with a 20 times forward PE, which means the market will be set up for, with the expectations for there is no way to fail, at least here there is some concern and trepidation because PE multiples are a little bit lower. So I guess I'm, I'm cautiously optimistic about earnings estimates this year or this quarter. but I'm definitely more concerned than normal.

Frank Curzio: Yeah and John I just wanted to say that I love you. Because before I could even get the question out, that's why I love having you on the podcast is I was gonna ask you because … And guys, this is very difficult for analysts sometimes, especially when they come for … you're a portfolio manager and we say things that people sometimes … everyone understands in our world, but we have a lot of individual investors listening. So what you're saying things like the dollar, like people might say, well the dollar's strong why's that bad? And you're saying,

well, most of their earnings come in S&P 500 but when you look at the small caps, that's actually a benefit because most small caps do business aligned the US. They don't have a huge international presence.

But yeah, just explaining that and also explaining the guidance, you can tell you a pro when it comes to this podcast and showing that. John's exactly right. It is about the guidance, right? It doesn't matter what they report. I won't say it doesn't matter at all but if they report really strong numbers and lower their guys, compared to if they report weak number and very strong guidance for the next quarter in the year, that stock's probably gonna go higher so you want to look at the guidance, which is very, very important.

Now you brought up some interesting things because you talked about commodity inflation. Almost every CEO from last quarter was talking about that. You're looking at inflation and oil prices and things that you just said. Now what does that mean? What do I want to hear? So for me personally, I look at companies like Delta. Delta came out and said, "We're seeing higher costs of transportation" like you said, and they're saying that, "But right now everything is cool and we're able to pass those costs off." I think in this market you're going to see a lot of CEO's say that because you forwarded me something which is interesting with Pepsi, right? Pepsi actually went up a date. What did they say? You highlight it and send it to me. you said that what is a currency is witnessed by the reason sharp rise in the strength of US dollar. That's a risk and also ongoing commodity inflation. That was Pepsi who just reported.

So for me, and I guess my question is to you where it seems right now in this market where the economy is pretty strong when you look at

everything and look at why, what is it almost six trillion dollars in, I don't know if you saw that stat, John in home equity for people, for US consumers, for homeowners in their homes that's untapped. I mean, we have a really good market. We're seeing companies so far very rarely in a season, in report, maybe like 30, 35, all highlighting the same risk. It seems like they could pass on these costs right now, but what does that mean for the future? Because this is, this is how inflation really, really gets going, right? I mean, it really gets out of control, but we're seeing it right now that they're going to raise prices to account for these high commodity pricing means everybody's going to be higher prices. And I don't know if that's really factored into to the market. Is it?

John Petrides: Yeah. So a couple of comments. The first is I would encourage all of your listeners to read Pepsi, the transcript from Pepsi's earnings call, which was last week. It's go online. Very easy to find. I was viewing Pepsi as the bellwether for this market in terms of their earnings for a couple of reasons.

A, consumer staples has gotten the snot kicked out of it year to date, right? So this is a sector where they were formerly considered bond proxies. You could, they had a big dividends and with interest rates running they got killed. That's number one.

Two with a commodity costs rising particularly at the pump in it and with tariffs because the company like Pepsi, we're selling aluminum cans is half their business for what was that going to do their margins? And Pepsi is a global company. So what was gonna happen with the US dollar and basically Pepsi has been able to hold pricing, okay? And they were able to maintain their guidance for the year specifically, they called out because of a lower tax rate. So they're cost, did go up. They did see

commodity inflation. They did not break that out between what was energy costs and what was tariff. They just basically lumped it all together and they did see pressure from a stronger dollar. But because they were able to cause a lower tax rate, they were able to hold guidance. And because of that, the stock was up 4% that day and the market rallied as well.

I do believe that if without the corporate tax rate, they would have had to guide their earnings lower and I think that would have been a bellwether and I think the market would have sold off on that news. Akin to, if you remember Frank in April when Caterpillar reported their earnings. The Caterpillar CEO made a comment that they were in the high watermark of their margins and man, that the whole market sold off on that news. Industrials got destroyed because everyone basically extrapolated that and said, well, the peak of the cycle.

So I was afraid that Pepsi may have had that type of impact to the overall market. So let me on your other comment on the impact of inflation. I'm going to paint the worst case scenario that you could possibly think of in terms of where inflation could go and the impact of tariffs and the global economy. And that is a situation of stagflation. So what does that mean?

Let's say we go onto this all out, brutal knockdown, take out tariff war and the cost of everything goes up. And because tariffs are a tax, it lowers the overall global economy. But at the same time inflation has to go up because everyone has to try to pass through the cost of goods because tariffs are higher in addition to a potentially higher oil prices. In that case you have a situation of stagflation. What does that mean?

The economy is stagnant, but inflation keeps rising. Now under that center … that scenario, the Fed

can't do anything. In that case, you can't go out and print more money because then you're only exacerbating the inflation side, right? So what do you do? There is almost no place to hide with maybe the exception of gold in a stagflation environment. I mean that is the worst case scenario. I don't think we get there. I don't think I do think that cooler heads will eventually prevail on trade tariffs. I do think that trade tariffs in general are not good for anyone. I do think the headline risk on trade tariff is worse. Maybe the bark is worse than the bite because we are an 18 trillion dollar global economy and although numbers being thrown around and the hundreds of billions of dollars, tariffs have only been slapped on globally maybe, I don't know, 25 or 30 billion dollars, okay? It's not a huge number yet.

Certain industries will get bitten, but it's not a huge number yet where it will derail the overall economy. So, when you're thinking about the inflationary environment, to me that the worst case, the big ultimate bear case that could come about because of the rising commodity costs and the impact of trade wars will be a stagflation environment. And in that case all bets are off. You're run to gold. So and as a matter of reference, we typically have about a 2% weight to gold in client portfolios to protect against that black swan event. So when you're looking at diversification of your assets I think that makes a lot of sense. Now listen, you've done a lot of work on crypto currencies and many would argue that maybe crypto currency is the new gold because it is sort of an uncorrelated asset and maybe that has potential to act in a gold in the future as well.

Frank Curzio: No, and it may be right? I mean, I don't know because I know that I'm attending this brock conference and thank you so much you guys. We're doing this a little bit earlier than Wednesday

so I can get up pockets out for you so I'm just letting you guys know because I don't want John to talk about a stock that comes out on Tuesday that reports earnings and it goes down. You going to be like, wait a minute, what just happened? But John's [inaudible 00:16:06] to do this early because I always want to get an interview out for you guys and it's very important and earnings season's always awesome. And the reason why I'm saying that, the broad commerce because it's not only mining now, it does a lot of cryptocurrency companies, companies getting into cryptocurrencies there. So you're even seeing that in the capital, the resource capital of the world where yeah, I'm not too sure if it's replacing gold, but it's definitely having an impact on it even though cryptocurrencies fell.

Now you brought up some good points and I think he appreciates this John so I want to go over the math really quick. It's important because people say, "well what about tariffs?" And it does impact certain companies, but here is when you look at the math, how it works, and it's going to take two seconds, guys. If you look at steel for example, the average car uses 2,000 pounds of steel, so it's around fifty cents per pound, say so a thousand dollars per car just for steel. So a 15% bump in steel prices due to tariffs amounts to an extra $150 more to produce a car. Now the margins on a car around 4,000 dollars, right? So I don't want to throw millions of numbers at you, but yeah, that 150 to the 4,000, it's a little significant. It's 4%. That's a very big number when you talk about margins.

But what John, you just brought up is you have to throw in the tax reforms because corporate tax is just got cut the board from 35% to 21%. And you're saying that gross margin on a car right? If we say 4,000 dollars, the difference on those taxes or how

much they're going to save is about 550 dollars in extra profit per car. So, if we take the 550 and then you minus 150 you have 400 dollars of profit. So we're still seeing companies do fine with the tariffs because it says it's very small compared to everything else and like you said, it's a lot of headline risk. I think a lot of this will be solved, but behind closed doors, which is going on right now. But when you're looking at the whole impact of everything, you can't just take tariffs and say, "Wow, trade was wow ... are so in trouble." without taking tax reforms because it's easily covering the cost of companies. What you saw with Pepsi.

Now, that begs the question, say if trade wars, tariffs, all this is figured out in a couple of months, which I think is gonna happen and that no longer exists, is that a positive for the upside for some of these companies, especially like a Pepsi, especially like again, aluminum companies, you have Whirlpool too. Harley Davidson companies that got impacted by this. Is that something that you're looking for or do you think this could impact them even more? Is it factored in? I mean that's what we try to find out, right? We have all the numbers we want to know if it's factored in and then you throw in. I'm confusing everybody here probably. But you throwing in that earnings are really just trading at 16 times forward earnings. Guys, that historically we usually trade around. John, you probably know the number, like 15, 15 and a half. I think

John Petrides: Yeah, pretty much. We're pretty much in line. Maybe a slight premium to where we have traded historically, but we're pretty much in line.

Frank Curzio: Yeah we have interest rates very, very low. We're seeing much stronger earnings growth, so it's hard to say that the market's going to collapse, but there are risks, right? So you talk about commodities

and you want to know where I'm going with this is what's going to happen if tariffs gets worse, gets better. I mean have you covered those scenarios because like you said, you're saying stagflation analysis. You always look at the worst case scenario and how are you gonna play it for your clients? what about if we don't have stagflation, but we see different policies coming out within trade wars, trade barriers, China and stuff like that. Have you looked at those scenarios that could lead to impaction earnings going forward?

John Petrides: Yeah. So a couple of points. One, let's talk about what the market is trying to price in with potential tariffs and the second thing is we can talk about the bull and bear case of investing in stocks today because I think both sides are actually compelling. It is hard to … each side makes compelling arguments. So it terms of what the market doesn't know quite yet, of how to price in tariffs into certain stocks because companies haven't been able to digest or see the results quite yet. Although that's what I got to one of the things that I'm waiting to hear on, on certain earning calls.

However, look at what stocks that have an asset heavy versus an asset light business model have done over the past four weeks. Now listen, the Fang stocks, Facebook, Amazon, Apple, Netflix, Google had been crushing it for three years, okay? And growth has been in favor over value from a style standpoint and investors are piled onto momentum because it's a hey, fear of missing out. If you can't beat them, join them. These companies are the wave of the future.

That being said Facebook, doesn't make drilling rigs or cars or heavy industrial heavy industry right there. A service, they're a media company. They're an advertising company. We're an asset light

business. So right now … now they had issues on the regulatory standpoint, but from a trade tariff standpoint right now, there is no issue for them. Same thing with Google, same thing with Netflix. Now Apple, there's some component issue that they can get caught up with. We're trying to maybe Amazon in terms of even some of their components, but again, by and large, those companies avoid the, the tariff issue. And you have seen a run up in the stocks even further and the evaluations and going higher.

On the other side, look at Ford, look at Caterpillar. You look at Boeing, every time there's a headline, the stock sells off. So the heavy industrial companies, there's definitely trepidation, I can't tell you, "Well 100% this is priced in" or "This is gonna happen and the stocks are washed out." So if there's we're pretty even or there, if these tariffs come through everything's priced in the stock. I think it's very hard to tell and I do think those stocks have just kind of either sold off or had been weighed down because investors are afraid of stepping in front of the steamroller.

So to your point, and let's say October comes around and let's say the Republicans are losing in maybe the public opinion polls, Trump is going to do everything he can to make sure that the Republicans win as many seats as possible and I would assume that automatically we will come up with solutions, the trade before that will help the stock market move higher and will help if it help the election side.

So I do think that at some point in time for year end and before the election, things are going to get turned around. In that case, I do think the heavy industrial stocks that have been discounting something should do really well. In that case Ford

should do really well. Caterpillar should do really well. And maybe you see the asset light businesses fell off. Maybe there's a rotation out of one to the other because that fear is no longer there and investors look at the relative value forward relative to Facebook is dirt cheap. So that comes into play.

Frank Curzio: No that's a great point. Now again, I did say this earlier but we did see some bank earnings that have come out, so I want to discuss those with you because for me, I've done a lot of research on all the banks and just really dug in to see. I never realized how strong they are the strongest that they've been, the history of our country, where they have to keep that 300 billion dollars of money on their balance that they can't even touch it. They're not allowed to touch, right? So that it's high quality capital guys. It's not like … This isn't mortgages or credit cards. This is a Mycenaean treasuries and cash that the government based on the current system, dot frank, they're not allowed to lend it. They have to keep it on the balance sheet, right? It's like Apple the government saying, Hey, you have 250 billion in cash? You have to keep 175 billion of that. You can't spend it, just keep it right there, which makes our economy safe but you're looking at the banks and they're trying to … they generated record earnings which is kind of amazing even with that, even without tax cuts.

So finding ways to make money, chances are net interest margin is going to go higher, right? It doesn't mean just because we're raising interest rates that that margin, that spread's going to go higher, but most of the time it does. Which is gonna mean more profit for the banks. What are your thoughts here? Because what I'm digging through some of these it seems like they were all very strong across the board but they are mixed as a little pockets of this, pockets of that. And we're seeing

what we're seeing in every earning season it seems less last three now. At least the last three where most of them report, I'm pretty sure in earnings his beat and guide a little bit higher, but we're seeing a pullback and it's not just banks. We've seen that pretty much through earnings season. What are your thoughts on the banks here, especially if the a close look at some of these companies use reported the majors.

John Petrides: So, my thoughts coming into the earning season for the banks is messy. I was concerned about bank earnings this quarter and I had expected them to have messy results and that's kind of what you're seeing. JP Morgan beat on the top line, beat the bottom line. And what do you say JP Morgan clearly solidifies itself as the best banking institution in the world.

Citi Group misses on the top line, beats on the bottom line. Wells Fargo had mixed results. So you're kind of seeing not a uniform results or you see messy results and the reason why I was concerned coming into the quarter and why I was expecting a messy return is because the net interest margin, the yield spreads had become really tight. So what does that mean? So the difference between a two year interest rate and a 10 year interest rate really in June really started to flatten out. So what does that mean?

So if you go to your local bank and you wanted to take on … if you want to invest in a two year cd right now, your bank will charge you about, let's say 2%. They got round numbers, okay? If you went to the same bank and said, "Hey, you needed a 10 year loan, they'll charge you a little bit around 3%. So the spread that the bank makes is 1%.

A year ago, this time that two year cd at the bank

would have paid you would have been about 1% and they would have charged you probably about 2.8% on a two year on a 10 year loan, which means the bank spread was 1.8% much higher than it is today. So the fact that the short part of the curve, one to three year bonds had risen and the longer data curb, normal part of the curve, the 10 year has actually come down to below 3% means that the spread that banks to make on paying money to [inaudible 00:26:39] for CD's and loans for lenders has tightened, which is going to hurt their top line.

So if that curve doesn't normalize, where inverts, where it gets steeper, meaning a longer part of the curve rises and the shorter part of the curve come down for that spread is wider, the banks are going to have another rough quarter as we're into the third quarter here.

So now that's short term. Long-term I love the banks. I really do think that the banks .... we talked about listen. Frank, we are 10 years ago from ... marketing the 10 year anniversary of Lehman brothers coming down and the financial heart attack that the global economy suffered. No one on this call on this podcast right now was not affected by that issue 10 years ago. I mean 10 years ago, Frank, I was at Bear Stearns Asset Management, which was essentially ground zero for the financial crisis. But here we are 10 years later and the balance sheets of the banks had been the healthiest they've been post World War II.

I mean all of the loan numbers that the banks are reporting are actually really high quality. The reason why they're not buying back more stock than they currently are. The reason why they're dividends are not growing faster than they currently are because the government, the Federal Reserve won't allow them to do so because they don't want to repeat of

what we had a decade ago.

So a company like Citi Group, which is trading at slightly above its book value is really attractive. I mean, Citi was a $76 stock at the end of last year. Now it's 66. I don't own Citi personally. Certain some of our clients do own Citi group. Same thing with Bank of America. I think Bank of America is really attractive here where again, it's not trading at an egregious premium to its price to book multiple. So I guess short term way of saying any pullback on the banks, I would be buyers because I do ultimately think that interest rates do go higher even if you're in a gradual level. And I do think that net interest margin spread the difference between a two year cd of what the bank has to pay out to what they charge on a longer dated a loan will widen that will openly help the banks make more money on return.

Frank Curzio: Great stuff there. And thank you so much for explaining the current and what that means with the interest margins too. Because I know that investors love that and some of us already know that too but it's just great to really get to [inaudible 00:29:08]. I appreciate you doing that. Now when it comes to … let's go outside of banks.

As I was going to say what are some of the sleeper sectors that you may see earnings. Where real estate has really trailed the last couple of quarters. It hasn't been too good as others. But one of the things that you did say is industrials and outside of guys, industrials were FDA … if you throw Caterpillar in there, if you throw Boeing in there. But overall, if you look a lot of industrial companies, they really haven't performed that well. I mean, it seems like that there's bargains in there and, and you have an infrastructure bill that I think it is going to happen and if it doesn't it's going to be very sad since both parties ran on a trillion dollar

infrastructure bill.

So you'd think that for the sake of everyone in the safety for some of these people and bridges collapsing and things like that, that they can actually get together without playing politics to get something out there because we actually need this, right? If you look all those studies, this isn't politics aside, if you look at bridges, dams. If you look at our water systems and pipes and it's very outdated and we need that to be upgraded, which is going to benefit some of these companies. Not right away, but that news could push a lot of these things higher.

So I don't know if you wanted to go a little more into industrials but what are some of the things maybe during this earning season that you're looking for that ... Because everyone's gonna say, "Well, let's see what the Fang stocks report will. Technology is good. Let's see. The banks are very important as well which filter out to the whole economy. But what it may be a sector inside there, is it a materials that have been doing okay? Is it healthcare, right? I mean, I know you talked about healthcare, but that's lagged on the earnings front over the past couple of quarters. What do you, what are you specifically looking for maybe from a sector point of view during this earning season?

John Petrides: Yep. So I think, although it was I think maybe the best performing sector in the second quarter going. I think the numbers are going to be blowout in the energy sector. I mean listen, Frank in January 2016 barrel of oil trucks for about $25 and now we're at 73. You've had like a 300% increase in the price of oil over a two and a half year period. And remember 2016, the energy sector, all the oil guys had to deal with the rating agencies and say, "Hey, we're not going to default on a loans." So they slashed their

Cap X budget tremendously. All of 2016. And that doesn't come back automatically.

So I still believe that the price of oil has gone up 300% in two and a half years. And I still believe that the energy companies are leaning from an operating standpoint, and have not brought their Cap X back to where they were pre 2016. So I think that energy, although it was the best performing sector, I think those companies are just going to destroy earnings this quarter. I think that's gonna be a massive, massive shot.

Now unfortunately from a market standpoint, the energy sector's only 6% of the index. I mean when we're talking about what's the market gonna do, guys, tech is 26% of the S&P 500. So the impact of technology earnings results is clearly going to drive more so than what energy will do to the overall market. But I do think from a sector standpoint, energy is just going to blow it out of the box. From a longer term standpoint, I think healthcare is one of the more attractive sectors in space. Again, I do believe that the fundamentals of a growing and aging global population, it only going to tax, it's only going to utilize the healthcare system more as we go forward. Listen healthcare was the best performing sector per year from 2010 until the summer of 2015. And that's when you have reports that people like Martin Shkreli and you had to Valium issue and you had this egregious and disgusting price gouging for drugs and tremendous amount of regulatory and oversight started pulling the industry and the whole chain within the healthcare, either from the big Pharma guys, down to distributors, they all got clipped and because they had to cut back on pricing that hurt everybody's margins.

But by and large, large cap healthcare … and I'm not speaking about biotech, large cap healthcare,

to me it's very, very attractive from a valuation standpoint, from a balance sheet quality standpoint. And again, I think the long term growth trend for the sector is very attractive. So short term, I think energy blows it out of the box long term, I do think healthcare, the better investment, better place to park your money.

Frank Curzio: And it's funny because as you were doing that, and guys I do this all the time because when I'm talking to my guests I'm just fascinated because I'm always getting different perspectives and point of view and I'm like researching as you're talking just to look at healthcare. And when I pulled up a simple chart, because we're talking about earnings and I'm going to ask you such an easy question right now, John, just for you. So get ready for it, but when it comes to healthcare, and I think I pulled up … actually this is what I just threw up at XHE, which is more of like a healthcare equipment. But so you look at earnings and this is in general with the whole earnings. I just tried to do a really quick, but what I'm seeing is something that outperform over the past year. The S&P 500 by two to one. I mean this is up like 32%. The S&P 500's up around 15% over the past 12 months. Not even a day, but over the past 12 months.

Yet we're seeing healthcare at least the last two quarters and also expected this quarter where they're reporting what in terms of sectors they're basically on the lower half. So what explains that where we also see in consumer staples on the lower half. And you could say, okay, well some of them is still performing well because of that high yield, but how do you explain healthcare and things like that where, what's the disconnect? Which is a very tough question. So I'm, I'm curious how you can answer this because what investors may see they're looking at and say, well, earnings aren't

that good earnings usually drop prices, but yet you're seeing healthcare go through the roof. It's been a very good performing sector or the past 12 months outperforming the markets, but yet earnings are going lower so that, does that give you an opportunity to say maybe ... I guess what I wanted, what I want to know is that why is that out performance happening when they're seeing slower earnings and probably everybody else?

John Petrides: So, I think from an out-performance standpoint, particularly in 2017 ... remember in 2016, healthcare was the only sector and the S&P 500 to finish negative for the calendar year. The only one.

So I think from a relative value standpoint, you had a rebound in 2017 as investors scooped up stocks that were bargains. So I do think that was a big reason why healthcare rebounded. I also do think that at least in 2017, initially the market was relieved from a healthcare standpoint. It helped your stocks standpoint that Trump won rather than Hillary Clinton because I do think that Hillary Clinton was the first person to tweet or, or fire the shot, heard round the world in August of 2015 that took the bubble out of a healthcare stock and started putting pressure on drug pricing. So, the fact that Trump won, I think that let certain investors in that sector breathe a sigh of relief that helped push the sector higher.

In terms of why the earnings have not performed well. Again, I do think it's all based on drug price compression. Drug prices have come down. You look at ... and there's been tremendous competition. Look at, remember a Gilead, which is a stock that I own personally. I pitched it on to your audience in the past. I still love the stock, still own the stock, clients of ours own the stock and in 2012 they

bought a company called Pharma set that basically had the wonder drug to cure Hep C and a Sovaldi and they were charging like 12,000 dollars per pill and their justification was, well, you're one and done right? So it saves so much cost in the future because you take the one pill and you're cured. Many other competitors came in with their own solution to the Hep C and, and at cheaper prices and forced the price of Sovaldi down.

So you have a lot of competition coming into the market? You again, the regulatory standpoint you've had pressure on drug prices. The distributors. I mean looking at Mckesson, Cardinal Health and Medicine, Spurgeon, ABC those are the three big distributors in the industry. And not only are they dealing with the potential disruption with Amazon, the recent acquisition of Pillpack now that drug distributors, very low margin business. So if they can't get any increase in pricing would be a pressure on pricing that gets passed on through and it hurts their profit margin.

Look at CVS and Walgreens. Those are considered healthcare stocks. They may be doing okay. They're feeling some pressure on the drug pricing as well, but remembering the half their businesses is as a retailer and they're getting clipped by the Ami Commerce side. So you have a lot of issues going on within the healthcare space. But mainly it all in terms of earning standpoint all revolved around a drug prices coming down.

Frank Curzio: It is interesting, right? Because with that sector … And this is why I say like, a lot of times I'm listening thing on CBC or different channels and most of its good, but some of it is just, yeah, the reporting is kind of like, I laugh sometimes because it's not really big deal, but it's enough to push

markets down. But like a Trump tweet where this recently just happened about Pfizer were actually about Pfizer and the price of going up and in Pfizer actually came out and said, okay, we're going to postpone and drug price hikes for now which is cool. But with that said, healthcare is so tough because when you look at the system guys what is it a 20 year patent that they have on these drugs. But it takes about 12 years, 11 years to really get this thing. If everything goes good, phase one, phase two, phase three approval.

It's like 12 years over a billion dollars in costs before you even start making money on this. So I could see ... these are companies that are for profit, right? So they want to generate profits. One of the biggest disconnects I see with tough and you may agree with this, is when it comes to the orphan drugs which treat rare diseases because the rare diseases are only in a very, very small amount of population. But when these companies go out and they're going to spend that much money and it wouldn't be like a billion dollars, probably be less, but they're given special status by the FDA to, to accelerate that approval process. But even with Valium and in some of the things, some of the drugs it's not a cholesterol treatment drug, right? Which, which we have thousands of them these days. This is a special drug that may be able to treat whatever he Graves Syndrome or different diseases where there ... But in order for them to make their money back, they have to charge 25,000 dollars for the treatment. And that's when we have our politicians going, "What are you crazy? You're nuts."

And it kind of leads to like if I'm a company and I want to create these types of drugs that I treat rare diseases, you're going to get crushed and lose your money and you're going to go bankrupt even

though you're trying to do a good thing. So is that something you look at where … Gilead too, where you have companies where they have a specific drug that's the best targeted disease and it really works, it's hard not to charge a lot for it, but you always want to maintain the cost. Is that always going to be a risk going forward because our politicians have tweeting these days and showing just anything to look at a poll, people are pissed off. "Okay, let's say that these guys have lower drug prices."

John Petrides: So why don't I give you, I guess my background on healthcare and how I view and how we view the sector. Frank, I am the furthest thing from a biologist. I'm a furthest thing from a scientist. In fact, half of the healthcare companies that we look at, I can't even pronounce the drugs. All right? So I don't pretend to say, "You know what? Company XYZ, their pipeline looks tremendous and I think by 2026 this is gonna be a great drug." I have no idea. And most of the analysts out there, God bless them, they're doing the best they can, but they don't have any idea either. So typically when we look at healthcare, I don't like the logistics side of it. So the distributors, right? Because it's not about what drug they have in the pipeline, it's about they fill a certain need in the supply chain.

I like the names like Gilead, Celgene, although we don't own Celgene across a certain clients do it. I don't own it personally. Celgene is actually in the back door there in summit, New Jersey. Well, Summit they're in the same boat as a Gilead is, right? They had this one major drug. If a cash cow. It is war chest of the balance sheet. It had some things fail through the pipeline. And where Gilead and Celgene will be doing going forward and it's already started this process, they're just going to buy their top line. No. Why invest so much money

in an R&D pipeline, which may or may not work? Why not go out into the biotech space and just start buying up company that you think have a shot and you work with your M&A team to strip out synergies and, and bolster your pipeline that way in both of those companies have a war chest for cashflow where they can do that.

So I feel more comfortable hiding in those type of company who sent that. I have a balance sheet to support me if things don't go right and I'm making a bet that management is effective enough, they know what they're doing to go out there and because they do have a good history, a good proven history, the track record of making solid acquisition. And I'm not overpaying for either stock because they're both attractive from evaluation standpoint. One of the lessons that I learned when I began this interview back in 2004. Okay. Pfizer again I was on the large cap value team within Bear Stearns and Pfizer was a big holding and my portfolio manager at the time brought up "I'm nervous about Pfizer." And we said "Why?" Well in 2012 Lipitor is going to come off of patent. Now we're in 2004 … this is 2012. Who the heck's talking about 2012?

Well the time Lipitor was 50% of Pfizer's earnings. Five zero. And when that fell off if they didn't fill that gap Pfizer was going to be a lot of trouble. And guess what? Pfizer had a really time filling that gap. I mean the only way they've been able to really plug the hole where they bought Wyeth in 2009 and had done some other acquisitions and they've spun off Zoetis and they've done a whole bunch of other things, but they haven't been able to come up with that huge blockbuster drugs since then. So that has been a, a bit of an issue and something that I'm conscious of and careful of when looking at a space. By the way we own Pfizer for our clients and I don't own it personally.

Frank Curzio: Okay, cool. So last thing here, because we're covering a lot. You're one of the guests that come on, never [inaudible 00:43:58] because you're always giving out stock ideas which you already did, especially in healthcare sectors that we spoke about in industrials and banks.

Outside of those, what are some of the maybe stocks that you're looking at? And just for me, I have a list of at least 40 companies in the S&P 500 that I want to listen to their conference calls that I like and I want to see what is going on and give me an update. So I want you guys to understand, again, we're doing this a little bit earlier and maybe one of these companies to report next couple of days, but what are some of the things maybe that are on your list of specific companies that you're looking at during earning season that maybe you own already or something if something triggers or if you see something you like, this might be like your next position that you recommended it to your clients?

John Petrides: So, two stocks that I like, completely different companies and I own them both and we own them for clients. One is Bright house Financial. BHS, Boy Harry Frank. And this is a spinoff from MetLife and it's MetLife old retail variable annuity and life insurance business. And then this Fox spun off about a year ago and it was a small spinoff. So you basically for every 11 shares of MetLife that you owned, you got one share of Bright house. So for a lot of investors really looks like a sub in the overall portfolio. And what happens often is Frank would spin off when you get these small subs know, maybe just don't want to do the work on it or you don't know what it is and it looks like a small position. So what's the point so I'll just sell it. And that has happened a lot, particularly for institutional clients, where managers are selling off these small

subs because they're not looking to invest in it.

Well Bright house Financial has gotten crushed. I mean the stock is down to the $40 share it trades at about point four times book value. So it trades at about ... for every $1 a book value, it's trading at about forty cents. And this isn't a company that's in trouble. Life insurance and variable annuity companies do well in a rising interest rate environment. So I do think interest rates will rise over time. This is a high quality company with a rich tradition. It's just has a different market, different names. So, I do think the selloff is way too much and I don't trade that a big discount relative to other annuity companies from a book value standpoint that I just don't think it's warranted and I think a lot of it has to do with the fact that it's fairly brand new as a standalone company.

So I think Bright house Financial is really attractive company here. The other stock that I like is Vodafone a VOD is the ticker and Vodafone is one of the largest mobile phone operators in the world. This stock, again this year had gotten killed and it's caught up in a couple of issues.

One is UK based company. So there is some concern about the upcoming issue with Brexit and how that's gonna impact UK companies in general. The second thing is, again, it's an international company, so [inaudible 00:47:09] dollar is bad for international stocks, in fact international stocks there are negative for the year from an index standpoint. So I think that has hurt them and it to tell it to telecom stock. Telecom is the worst performing sector in the S&P 500 year to date. And finally a paid huge dividend. The dividend yield is about 7%.

And high dividend earning stocks, income oriented stocks … Remember for the last six of it or eight the last ten years, how many times did we talk about the hunt for yield, right? The hunt for income because we can't find income anywhere. Income today is probably the easiest it's been able to find in the past 10 years because interest rates have risen. So anything with a high dividend yield, whether it's telecom stocks, rets, utilities, consumer staples, man, all those stocks have sold off with their income is actually quite attractive right now. So the investors are out there looking for income, it's there to be had. And I don't think a Vodafone sold its stake to Verizon Wireless, back to Verizon in 2014 for 133 billion dollars and the company returned a lot of that to shareholders, special buyback and special dividends. They bought back stock and they've announced they're acquiring assets and they're looking to transform their business similar to what AT&T did with Time Warner where they're trying to add more broadband and media assets to their portfolio so they diversify away from a pure mobile phone operator.

So I'm not, although the yield is high, I'm not concerned. I don't think there's any going concern to the yield of Vodafone.

So there are two names that I think they're completely different … they're polar opposites, but I do think from a valuation standpoint, they're compelling at current prices

Frank Curzio: Yeah and I think that's what people love about you, at least my audience is because when we do these we go everywhere. It's all focused on earnings and that will go in different industries and different stocks and it's always relevant, right? Whatever we're talking about, cause we can go to the banks

and report already and stuff. And again, I know my listeners really, really loved that and getting that update at least once in a quarter from you.

So John, thank you so much for coming on. I know how busy you are and coming on short notice because I am going away and leave it a couple of days and you're always there for me and stuff like that and always there to … I don't know if I should say it. Well you never half ass anything. So you come prepared. You're always great and I know people love it. And I really appreciate it. I know they do too, man.

John Petrides: Yeah, Frank. Thanks a lot. Safe trips. Look forward to hearing your comments coming back from the back of the trip and if I could throw out, if people want to follow me on Twitter I'm at J_Petrides and our website is www.ptview.com, we're Point of View Wealth Management. So just throwing it out there as well.

Frank Curzio: And throwing it out there as well is you do have like three reports that you actually provide people too that you send me sometimes as well when those things are written up which I don't know if it's a blog format or anything but they could also find that at your website as well, correct?

John Petrides: Yeah, no we have an article section. My CIO posted 10 stock ideas for the back nine of 2018 so you take off Vodiphone and Bright house are two of those names on that list. So and just published our recent quarterly newsletter so please feel free to take a look. It's all available but you don't need any special sign on or password or any commitment to do any of that.

Frank Curzio: All right sounds great bud. Thanks so much for coming on. I appreciate it.

John Petrides: Oh, Bye Frank, take care.

Frank Curzio: Hi guys great stuff from John as always. It's a guy, always prepared. I can ask him anything, tough questions, hard questions and what I love about him is someone who does these interviews is sometimes we'll go over topics or … With John, with guys like Andrew Horowitz, it's kind of like three bullets and that's it. And we won't even talk until the interview because … and it's great because it's not scripted. We go wherever it is, wherever I feel like I want to learn or my listeners want to learn about different things. So that's where the interviews really go well because sometimes people listen. It's just …

And to get a media and things like that you're gonna have a [inaudible 00:51:14] who's very exciting and then you have other guys that might be a little bit boring and unfortunately it's usually the people that are kind of like, "Huh" half and half that is really smart but maybe don't come over great in the media.

John is one of those few people that's just a great analyst, comes over great, is able to explain his ideas thoroughly, to investors and it's kind of rare in the industry to have the whole package and John does. And I'm a big fan of his and I know he really cares. So much so that a lot of his ideas have done great and what was one of the ones he brought up was Gilead because he gave it about two, three months ago, the last time he was on, and I know that stock has come down and that's one of the ones he wants to talk about because he understands that responsibility that people are actually listening to you, investing in it, and him telling you, "Just updating, we still like. We like it here. We think it's gonna go higher, we're still in it." Just shows that the credibility behind a guy like that which I really, really like.

So he's a good friend. He's always … yeah I've been wanting to come to this Podcast and more important he gives his all. It's always a really great interview and I appreciate it.

Now, guys. Come back on Friday. Be a lot of fun. If you're looking for some ideas or have any questions about the resource industry at cryptos, yes I said cryptos, be sure to email me at Frank@Curzioresearch.com. I said cryptos because the mining conference now, a lot of these you're gonna see crypto companies everywhere. That's the industry. So it's not just mining and gold and boring stuff. Now a lot of these companies, lot of management teams are getting to cryptos and they're making their way into these mining congresses.

So a meeting would allow those companies as well which is going to be great for crypto intelligence and yeah … so when I get home from this Brock conference, about two days, wealth of information from some of the greatest sources I mentioned earlier. [inaudible 00:52:54] Rick Rule, Jeff Phillips, Russ Beatie, meeting with several crypto companies. It's gonna be a lot of fun, really cool.

But if you want, any information of any questions, be sure to email me. Frank@Curzioresearch.com. That's Frank@Curzioresearch.com, 'cause I'm gonna have a lot of great, great, information. I love attending this conference and catching up with some of the best names in the resource industry.

So guys that's it for me. Thank you so much for listening and I'll see you in just two days if you listen to Frankly Speaking on Friday. But otherwise, I'll see you in seven days. Take care.

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