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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 Beer, hosted by hedge fund veteran and newsletter writer, Mike Alkin, who helps ordinary investors level the playing against the pros, by bringing you market insights and interviews with corporate executives and institutional investors.

Mike sifts through all the noise of mainstream financial media and Wall Street to help you focus on what really matters in the markets, and now, here's your host, Mike Alkin.

Mike: Welcome to the podcast. It's Monday, August 20th, 2018.

Hope you had a good weekend. I was off last week, not really off, but I didn't do the podcast last week. I was traveling. I was in Singapore, and I was in Hong Kong. I was visiting some friends, and I ... I had a nice trip.

For those of you who've not been to either city or been to one and not the other, I mean, both just really, really fabulous cities. I mean, Hong Kong is bustling. It's exciting, and it's a great international city and reminds me a bit of New York, right, with the traffic and the size and a lot of stuff going on, sometimes a little chaotic. Other times, it's not, but really a nice time.

And I saw some friends. And I also spent some time talking to people about uranium when I was over there. I will say that some of the institutional investors that I was talking with over there really, pretty ahead of the curve on the uranium space.

For those of you who aren't familiar, but I have a real interest in the uranium sector. I invest in the space, and I have a firm that focuses on uranium strategies. It's coming out of a seven-year, lengthy, bear market, and I speak to people all over the world about uranium.

And I was really impressed with some of the folks that I talked with over there, really in terms of their interests and getting up to speed and a market difference from a year ago in the space where people are just now kind of waking up to here's a pretty undervalued asset class.

So it was nice to be there. Went over to Singapore. Just a great, great, great spot to go visit, just ... I mean, just so clean and nice and orderly. When I think of Singapore, I think of order and structure and nice and people who're really friendly and good food and really a good trip.

So I'm back. The flight back was unrelenting. It was just ridiculous. Left Singapore, three and a half, four-hour flight to Hong Kong. Had a two-hour delay over in Hong Kong and a 15 and a half-hour flight back. It's not bad at all.

I break it up in two. When I'm on these long flights, I probably spend half the time doing work, right, so I'm reading stuff about companies and industries. And then I like to do some just fiction reading. I'm into spy novels and stuff like that, and I watch a couple of movies. And it goes by really fast.

Oh, by the way, and before I forget, I just go back ... Before the flight, I was talking ... You're going to hear ... I have Frank Curzio coming up on the interview, but the one thing I struggled with there is some of ...

The food is good. It's great, right, fabulous, world-class food. I'm more of a meat and potatoes guy, so I tend to eat, when I'm there, just ... If I can, find a cheeseburger or some fish and chips somewhere. I tend to eat a salad or rice or McDonald's, so I was lucky I was able to stumble upon a few McDonald's because I'm just not adventurous. Some of the fish and seafood over these I just ... I didn't do it, so there were a few group dinners that we went to. And bread and salad did it for me. The trip was also good because I probably lost a few pounds.

So on the way back, we are flying over. And I'm looking at the map. And I'm sensing we're getting close. And it says Buffalo and Rochester on the digital track where your flight end.

So Rochester, New York, I'm in New York, so we have about 40 minutes to go. And then all of a sudden, I look at my screen. And it is showing Toronto is the destination. Toronto?

And so we're going a little bit further. And I thought GPS must be out of whack or something, which it actually isn't very good if you're ... I hope the pilot's GPS is working.

But all of a sudden, I see it's getting closer. So I get up. And I walk back to the galley. And I said, "Hey, is there ... Is there ... ", to the flight attendant. "Why is it showing Toronto?"

She said, "Oh, yeah. The pilot's going to come on." She said, "There's heavy weather in New York," and now, there's no Wi-Fi on the flight. It was kind of crazy for 15 hours. I don't get it. So I said, "Okay," so she said, "But we're going to land and just refuel. The pilot's going to come on."

So the pilot comes on. He says, "Hey, I just want to let you know that there's heavy weather in the New York area, and we are going to ... We needed two hours of fuel to be in a holding pattern, and we don't have enough, so we're going to take you to Toronto. We're going to refuel, and then we'll get you on your way. The weather should be cleared up by then."

Okay, so we land. It's 8:00 p.m. in Toronto or so, 8:00 p.m. or so, and here we are. We're sitting on the tarmac, and 8:30 comes, 9:00 comes, 9:30 comes, nothing. Not hearing anything. 10:00 comes.

"Folks, we're ... It's the pilot. We're hoping to get you refueled, but now we're pushing up against the amount of time that we can be on a flight," right, because the pilots can only fly for so long, "And we're looking for a backup crew," so a backup crew. So now, it's 10:00. They said, "We'll be back."

So now, 10:30 comes, 11:00 comes. Now, mind you, we're still on the tarmac, and it's now ... We've been on the tarmac for three hours, and there is no water. There's no food, and so I walk back to the galley, and I said, "I'm sorry. Could I get a bourbon? I mean we're sitting here."

"Oh, no. Everything's locked up." I said, "Well, okay, so unlock it, right? How about some water? We'll settle for that," and said, "Well, we will." So, they have a little bit of ... Somewhere about half hour later, they bring water, and then the pilot comes on and says, "Folks, we located a backup crew, and they're going to come."

So now it's 11:30. Backup crew comes at 12:50, 1:00, and we leave at 2:00. So here we are in Toronto for six hours, sitting on a tarmac. We did get one glass of water, and now we're on the ground. And I'm texting a friend of mine who's a New York City police sergeant. And I know he's around the airport in Queens.

So I said, "Hey, how's the weather?" I said, "We're in Toronto here. You working?" He said, "Yes." I said, "Are you by the airport?" He said, "Yes." I said, "What's going on?" He said, "What are you talking about?" He said, "I'm watching planes take off and land. I've been watching them." He said, "I just seen them up and down

all the time." So I was like, "You're kidding me." He said, "No." He said, "There was weather way earlier, but I mean, it's been fine for a long time."

So here we are. Who knows? I'm sure it was the weather. Maybe they didn't have enough fuel. I'm sure they got told to divert, and now we land, and it's ... We leave Toronto at 2:00. We land at 3:00. I have global entry, so I don't have to wait on any lines. I just go, and I'm out. I'm at the baggage 10 minutes later, an hour and 10 minutes, waiting for baggage to come out. So now, it's 4:15, 4:30 in the morning. And you got to be kidding me. And it was just one calamity after the other.

What was a really great trip ... It was really nice ... turned into, I think, a 29-hour ordeal coming home. But I'm home. I'm fine, I spent the weekend, got my body back up to speed, and here I am.

For those of you, if you get a chance, and you haven't visited Hong Kong, you haven't visited Singapore, really just a fantastic spot. It's a great, great, great, great, international city.

I was trying to think about what I really wanted to talk about for this podcast, and I thought we're in the middle of earning ... Well, it's the latter part of earning season now, and there seems to be somewhat of a shift.

I promised you probably a month into the podcast when I started this that I was going to start off every time, every podcast, saying, "Here's what the markets did last week, and here's what I think. [And I'm bearish 00:09:53]."

For those of you who are listeners on a fairly regular basis, I have a view, and it's been some ... I'm bearish, more than bullish. I'm not bombastically bearish, but I think there's downside to come. And I wanted to bring on ...

I wanted to talk about that because we've just kind of gone through earning season, and I thought that for the interview, I wanted to kind of walk you through where we are in earning season. And I thought that I would bring on Frank Curzio, who I worked with at Curzio Research.

Frank does a podcast. He's been doing it now just forever, and I was in Hong Kong. And I was in the hotel room. And I was thumbing through my phone. And I was looking at some podcasts that I wanted to listen to. And I saw that Frank had come out with the

other guests. And he talked about somewhat more of a bearish tilt. And Frank had been somewhat more bullish. So I just thought we should talk about some of the things that are there. We're going to talk about that, but before I do, The Americans.

I think I've talked to you about my TV program, and I got to tell you, the Blacklist has been one that I've been all over, right? I kind of like that, and I talked House of Cards prior to that. But I don't know. If you have any interest at all in Cold War, spy-type stuff, I mean, I can't recommend enough The Americans.

I've binged watched, again, and it's ... The series is just so spectacular. Two KGB agents living in the US as regular citizens with a family and living in DC, and [inaudible 00:11:40].

There's six seasons of the show, and, just, it's captivating. And one of my subscribers, John ... And he's on Twitter. I won't get into his full name. He's a walking recommendation for TV programs, but, for me, I love them because it just takes my mind away from things for a while, just a couple of hours at night time after I've done my work. And I just sit there. But The Americans, if you're into spy-type stuff, I really can't recommend it enough.

So anyway, without further ado, let's get on and talk about earning season. We're going to just shoot the breeze with Frank Curzio, and I always like to have him on every few months. So Frank Curzio, welcome to the podcast.

Frank: Thanks so much for having me on, man.

Mike: Man, it's always nice being on the other side, right, when you're ... What are you on, episode 650 of your interviews?

Frank: I mean, it's probably 2,000. I mean, that [started, I think 00:12:42], from [Stansbury 00:12:42], but I used to do a podcast every single day at TheStreet, which was insane. I mean, I was probably the smartest person in the world back then because it was just crazy, but, oh, man. But it's a lot of work. And I think you'll agree that, yeah, once or twice a week is definitely enough, right?

Mike: I literally, Frank, have no idea how you do twice a week because the once week is a lot, and like you, you try and bring on different guests. Especially in the summer time, the month of August, nobody's around, and then when they do commit to it, they say, "Yeah, okay. Sure, yeah. No problem," and then all of a sudden, you can't find them.

Frank: Yep.

Mike: Right? It's a lot. It is great, but it's a lot of fun doing it. So man, thanks for ... Thanks for taking the time.

Frank: Nah, no worries, man. No worries.

Mike: I was just in Hong Kong and Singapore for the past week, and it was ... I got to tell you, I mean, great city. It's really exciting to be there, but it was so hot. It was stifling, and it was rainy. It was 105, 108 with the heat index, and so it ... Well, I enjoyed being there. It was great seeing friends and seeing everything. It's good to be back, and I know you're in Florida during the summer. So you don't have a walk in the park either, do you?

Frank: I can tell you. I came back from New York with my family, and I showed my kids New York City. And I lived there pretty much all my life other than the last seven years, eight years, to show them New York City and the buses and just getting on those buses where the ... Whatever, the tour buses and everything, to see all the landmark sites and stuff, and it was much, much hotter there than it is here, which is insane.

I mean, the humidity and everything, and I'm in North Florida. So it's not as bad as Miami or anything. But holy cow, it's pretty hot in New York. It's actually better in Northern Florida than it is in New York, I think, during the summer time.

Mike: This summer's been tough for whatever reason, and I'm a broken record. Every year, I complain in the winter that I can't wait for the summer, and in the summer, I'm just saying, "God, bring me the winter." I just can't handle it.

I went outside to get the newspaper this morning ... Yes, I still get a newspaper ... and it was chilly out, and I thought, "Oh, my god. Thank goodness we're getting close, to getting rid of the heat," so anyways.

So what's going on, I mean, in terms of what are you seeing? Earning season is here, and you and I are talking. I was in Asia, and I was checking through the podcasts ... The twelve-hour time different kind of wrecks you when you're there, right ... trying to do.

Frank: Absolutely.

Mike: I saw your podcast, and I saw you had on [Red Shoe 00:15:20] was kind of bearish. And I didn't get a chance to listen to it yet. And then I saw your commentary. And you were saying, yeah, that you were thinking that maybe things can kind of turn south for a bit.

Being that I write a newsletter that has a bearish tone to it, right, but I'm looking for individual stocks that I think can, over a period of 12 to 18 months or so, decline in value and not so much market costs. But I do have a bearish market view in general, right?

On the margin, I'm more bearish than not, and I articulated that to listeners and on your podcast and on my podcast. But you've been more bullish lately. And you've been right. You've been perfectly right, but I notice, now, your tone is changing a little bit. So why don't you kind of walk listeners through how you're thinking about this earning season and what it means for stocks.

Frank: No, I appreciate that, and, Mike, just, for me, it's not being a permabull or permabear, which sometimes we talk to these people all the time, right?

Mike: Yep, yep.

Frank: For me, it's all about the data, and the data have shown me that earnings are going to go higher and higher and higher over the past few years. And we've been right on our bullish call. We haven't been right on every one of our stock picks. Most of them, we're doing well, but we all have losers or winners.

So when I look at the data, okay, which determines whether I'm buying stocks or taking some off the table or actually deciding to go short, when it comes to earning season, we're seeing incredible earnings growth. We're looking at 25% earnings growth. [When we put our 00:16:50] perspective, I mean, we really haven't see that type of growth, maybe once or twice, pretty much since, I would say, 2005, 2006.

And a lot of that has to do with tax cuts, not all of it, because we're seeing sales growth of 10%, right, so that's real growth. People are spending more money on things, and our economy's doing better.

If you take the earnings landscape right now, and we're just about complete of earning season ... I think more than 95% of the S&P 500 companies reported this quarter ... which, right now, we trend about 16 and a half times earnings. And if you look at that, that's right in line with the five-year average.

So if people tell you, "Hey, the market's expensive right now," it's just as expensive as it was two years ago, three years ago, four years ago. And people might say, "Well, the market's higher." Well, earnings are much higher as well, right, so sometimes, a stock could be cheaper even though the stocks went up 100% if earnings go higher, right?

Now, one of the trends that scare me is you're seeing a rising dollar. You're seeing a China economy really ... Very surprising to me that China's still fighting us on tariffs because it's destroying their markets. We're seeing it get crushed.

We're seeing high interest rates really hurt markets like Turkey, Brazil, Argentina. Their debt is [nine million 00:17:57] dollars. [crosstalk 00:17:58] you don't know, but we're looking at merging markets, right, that aren't really doing too good.

Yet, this earning season, guys, if you get a chance, go on Google, and just google FactSet earnings. And FactSet is amazing. They come up with 15, 20-page report. During earning season, after earning season, they update it every couple of weeks and absolutely for free, and it's going to give you the scoop on all the sectors, everything you need to know on earnings, what people are reporting. It's just fantastic.

And FactSet did a good job separating companies in the S&P 500 into two categories. One, which are companies that get a bulk of their ... Or more their [revenue 00:18:35] overseas. Any other is companies that receive revenue, their revenue in the US, that you would think with a rising dollar, right? That's why small caps are doing well. Companies with more exposure to the US would do well.

But interesting enough, the companies ... It's hard to explain ... that have more international exposure, this past quarter, showed 30% earnings growth compared to 22% earnings growth, when we look at companies with more exposure to the US, which was odd.

And maybe that's more because technology and sector-weighted technology, sometimes materials, that they're doing a lot better right now. And a lot of that they have more international exposure. But that's going to change drastically, okay, because you're seeing the dollar rise.

You're seeing a lot of countries ... Remember, spending is about sentiment, and right now in China, sentiment is very, very low. Their economy's crashing. The markets are coming down. They're fighting us with tariffs.

You're going to see international sales get hit and the fact that that's accounting for the bulk of our earnings this earning season, and throw in the fact that we have tremendous inflation right now.

Mike: Yeah.

Frank: I don't know if you saw this [stat 00:19:39], and I tweeted it out. Very surprising there's a lot of people who do not know this, and I didn't know this until a couple of days ago. Goldman Sachs has a wage survey that they do. It's a leading indicated wage survey that they've been doing for probably 15 years.

Wages grew 3% quarter of a quarter. 3.2 or 3.4% is the highest percentage growth they've seen since 2007. That's the one component that was missing, right? We're seeing prices go

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Frank: That's the one component that was missing, right? We're seeing prices go up and everyone's saying, "Well, these tax cuts. What are we seeing with these tax cuts?" Companies are using them for earning, to buy back their stock, and increase their dividend, and it's not really filtering down to the consumer. Well, now you're seeing wage growth really take off. Why? Because unemployment rate is essentially zero. If you want a job, you can get a job. But if you want someone with quality that knows what they're doing, you're going to have to pay up for these people. Okay?

Mike: Think about the restaurant sector, Frank, and the retail sector I mean where they're having to pay really high wages in a really competitive environment. It's tough to take your prices up in that sector. Right?

Frank: Absolutely. There's some industries where it's easy to pass on cost, and in the restaurant sector, depending. I mean, you go to Chipotle, you go to some of these fast food place, you're going to see prices rise. Now you have inflation kicking in, right? That's pretty much the last case for proof of inflation where all of us see it, right? Everywhere. But when you look at the fed and what they care about as a CPI, which excludes food and energy, which is the biggest cost to all of us, right? They exclude that, which is fine. That's still over 2% and they're raising rates.

So as they're raising rates, it's going to get worse for emerging markets who are filled with debt. Debt denominates dollars. You're going to see earnings overseas really come down for the U.S.

companies. I think they're going to see sales come down, which is making me believe because if you listen to these conference calls, almost everyone sited higher margin costs. Margins could get hit. They're at an all-time high. As you see labor costs rise, right, which means wages are rising. Commodity inflation. I mean, energy prices. So, the fact that we're pretty much at all time earnings, all-time record margins, and you're not going to see the growth you're seeing, which really led to this earning season being fantastic. You're not going to see that next quarter.

So my prediction is next quarter you're going to see companies, maybe they meet their earnings estimates because they're inflated right now, but they're going to probably warn from Q4 that these earnings are gonna have to come down. We're going to see much slower earnings growth. I didn't want to get too much into it. Maybe that's too much of a detailed explanation but earnings have been driving stock prices. I don't care if it's because of buy-backs. I don't care what it's because of. But the fact of the matter is we've seen earnings rise tremendously over the past few years and in that we've seen stocks rise over that.

We're not gonna have that huge earning growth going forward. I think it's going to take a bigger hit than what people believe starting next quarter.

Mike: Well, yeah, you know what camp I fall in. You just said something, though. For listeners who are not paying attention every day to the markets and may be new and trying to learn about what drives stocks, right? Obviously earnings. But you mentioned the dollar. A rising dollar. We glanced over rising dollar may not be good for those companies who export, right? So, just for listeners who may not be familiar, talk to them about why the dollar increasing is not necessarily beneficial for companies doing business overseas.

Frank: Yeah, well, let's use Canada as an example. I think 2011, 2012 even, they were on par with the US. That means the dollar, it was a dollar spent here is the same as a dollar spent in Canada, right? Now there's like a 30 percent difference. So that means, say if I had stocks and I invest and I put 100 thousand dollars into it, or my portfolio went up to 100 thousand dollars over the last three years, right? And it's 100 thousand dollars and I want to take it out of Canada today. If I take that out of Canada and bring it to the US in 2012 that would've been 100 thousand dollars. Now it's only going to be 70 thousand dollars because of the currency differential.

So, when you look at that across the board and you have exposure to these companies, the money coming in is going to be less in dollar denominated terms and that's going to lower profits. And companies, it's amazing because when we've seen things like this, and you can attest to this cause I'm a big earnings fan, they used to say, "X currency we're growing at, blah blah blah," and now[crosstalk 00:23:50]

Mike: As though currency doesn't matter.

Frank: No, the currency was in their favor.

Mike: Yeah, exactly.

Frank: Now they don't mention that at all. They don't say, "Oh, we had even bigger boosts because of currency." You're gonna see that come out again this quarter. They're gonna say, "Well, X currency we're growing at 15%." Well, you have to include currency because you've been including it the whole time. So now your earnings are going to be a lot less. So hopefully that's a good explanation of what's happening right now.

Mike: Yeah, no it is. The other thing, too, for those who export goods, rising dollar makes it more expensive for people outside the country to buy American goods. And so, if other currencies are weakening against the dollar it makes other goods more competitive against the goods that you're exporting from here. And so that can also bite into earnings quite a bit too from a competitive standpoint.

So, as you're thinking about the sectors and how you think about it, you have a couple of different portfolios that you write up in your newsletter so talk about how you think about positioning and how does it impact the way you are positioned in your portfolios.

Frank: First of all I want to say this, Mike you and I probably differ a little bit on these terms which is great because whenever you have an opinion on something you want to talk to someone who has different opinion because it's going to make your research even harder. Now, I'm not calling for Armageddon here. I think the banks will leverage more than 30 to one during the credit crisis which means you needed to see the housing prices decline four percent to wipe out your total capital basically.

Now they'll leverage more like ten to one and plus they have more capital on their balance sheet than ever. And yes, Mike, you use site derivatives and stuff like that and I agree, there is a risk there, but I don't see the end of western civilization like we saw in 2008, 2009.

Mike: I would agree with that.

Frank: With that said, it doesn't mean we can't pull back 15, 20% after an eight year bull market. And I know a lot of people have been predicting this for a long time. For me, when I look at the data again, it's not about being a perma-bull or perma-bear, which we see a lot from analysts out there. It's about looking at the data and the data is going to change going forward which is making me say, "How do I position my portfolios?" Recently we've had a lot of winners in our portfolios and we're starting to trim those positions. Cause I could be wrong. Maybe the Fed says, "Hey, we're gonna stop raising rates." Maybe the dollar comes down a lot. Maybe we hear about China and the US really discussing tariffs and coming to a solution.

We also have the big stimulus plan coming out of China. I really think a lot of Chinese stocks might be a good buy here. I'm not telling you to sell everything but there's gonna be a lot of stocks-like the FANG stocks are starting to get hit with Netflix and Facebook. You're gonna see a lot of companies getting national exposure get hit and there's a lot of names, which you can attest to Mike, that are down already 20% this year that are getting smoked. One of your good calls is Goodyear Tires that's getting destroyed.

So, when I look at some of these companies, it's a buying opportunity for names that are down a ton. I'm positioning myself where I'm selling some of my positions right now to raise capital. Remember, bear markets are really good for those who are prepared because you want to buy some of your favorite names if the market does come down a lot. Maybe the market doesn't come down 20% but you're gonna see a lot of really high-flying names and growth names that's been in favor.

When you see this growth slow and earnings growth slow, these stocks could come down 10-20% like Nvidia and still be up 300% over the past couple of years.

Mike: Well, you know Frank, it's interesting. I remember, it had to be last Summer, cause I remember I was in my backyard and I was on the phone talking to you and I was telling you why I thought Netflix was going to get crushed. But I didn't write it up cause I just thought there was too much momentum. But I thought competition and the staggering amount of debt they have. I didn't write it up and here it is now. They missed an earnings period and the stock being really weak and it's still much higher than where it was when I was initially thinking about it and talking to you about it.

Frank: I was just going to say that. The stock went up from 300 to 400 and then people were upgrading. Even Facebook, when they miss, there was 44 analysts covering the stock, 41 had strong buys before the quarter they missed when the stock fell more than 20%. You had Goldman, JP Morgan, Deutsche Bank, three of the biggest investment firms a couple of days before the quarter are writing positive reports saying, "Based on our challenge checks this is going to be a great quarter." Telling their clients to get in and then they miss and they got crushed.

So, and you know with Tesla. You're going to be alright with Tesla. I think everybody knows this is a BS stock but it's almost like Enron. The people who found Enron and understood, "Hey, this company's worthless." Well, if Skilling comes out and says, "We've secured funding for the stock at 30% higher." You're gonna wipe out some of these shorts.

Mike: Until King Elon realized, by the way I'd like to play poker against Elon because you're only fund, not to change the subject but you've secured funding and you tell people it's this Saudi Sovereign Wealth Fund. Well, okay, so I've got one card in my hand, my ace and all of a sudden now I just told the world that these guys are going to come buy me, take me private. Now, if I'm those guys would you try and walk away from that a little bit? And here you've seen the stocks come down 75 points in two weeks.

Anyway, you've got me going on Tesla. You know me.

Frank: Yeah, I don't want to get you. But, I will say this Mike, that I think even for your product Money Flow Trader, it's gonna be like shooting fish in a barrel. You're gonna see a lot of these growth stocks get nailed. You're great at doing this where timing is such an issue when it comes to shorts cause even with Tesla you're seeing Nvidia and a lot of these stocks go a lot higher before they go lower.

Mike: Yeah, absolutely.

Frank: But once this trend breaks down you're gonna see a lot of these companies, because the institution even value investors are in these FANG stocks that once this turns you're going to see a massive outflow of capital. And you're kind of seeing that a little bit in utilities and even consumer staples which we discussed which were incredibly overvalued and they've come down tremendously since we've talked about that. But you're seeing money rotating to this really slowly right now.

Mike: Yup, you know, you are. But some of these stocks, Frank, where even with earnings sometimes when the momentum is in them and the earnings are just okay until there's that big break. You still have people who want to sit there and support the stock and it's really fascinating to see. It's an interesting time. But then there comes that time when I think on these momentum-y stocks, I'd rather short them or buy on the way down almost. Because it's a hard battle sometimes.

So, with all this, I know you like to look for value. You look at a lot of different things. You look at growth stocks. You look at value stocks. But as you're thinking about this potentially sell-off. Say you get a 15-20% correction, how do you walk people through? Give a day in the life, a week in the life, of Francis S. Curzio as you're seeing this occur. How are you thinking about generating ideas and where are you looking for ideas as the market's starting to sell off?

Frank: It's a good question. I mean, for me, I love what I do. So, I work probably 14-15 hour days. It's not just writing newsletters. It's running currency research and traveling to find the best ideas. So, I can only do that if I loved it.

Mike: [crosstalk 00:31:47]You told me you worked hard. I didn't realize. Hey, if 14's a long day for you, we'll go with that.

Frank: I know, I'm being conservative but it's so crazy and that includes the weekends by the way, too. Which could weight on your family life as you know better than everybody, being in the hedge fund world. But for me right now, what I'm looking at is not[crosstalk 00:32:11]

Mike: Do you sleep on the office floor like somebody sleeps on the factory floor?

Frank: Sometimes. Sometimes I'm in the office til the next day and other times I'm getting home at one a.m. and waking up like 8:30 to get here very early.

Mike: Do you tweet how exhausted you are like other CEO's do?

Frank: No, no. There's a lot of your listeners and my listeners that work just as hard. [crosstalk 00:32:33]

Mike: I keep going back to that Tesla thing. I just can't help myself. Anyway, sorry.

Frank: So, a day in the life for me is kind of like what am I looking at now? I like to look at 13 F's. That's the biggest funds that have to report. I think they have over a hundred million in assets or they're managing a hundred million. They got to report what positions they own, if they're increased positions, if they're lowering positions, if they're out of positions. It doesn't mean that you should go and buy these positions. It's just something that I've paid attention to for a while.

If I see something that's just out of the ordinary. Like, they're buying a small cap stock and I'll take a look at it. Like a biotech stock especially. Like it's Baker Brothers, the Warren Buffett of the biotech industry. If they're buying a couple of stocks and now I look at the stock and see it's down 30-40% and now I'll start digging into the stock and seeing why it's down. And again, this is all on my radar so it's not like-cause you have to remember, this is what they bought over the past three months.

Now, it usually stops one week or two weeks before the earning season. So you don't know what they did those two weeks where they could actually be out of these positions especially if it's like Renaissance Capital algorithms. I'm not paying attention to those guys. It's more like, David Tepper who had guys scale into positions. I'll look for insider buys right now. And I want to see insiders buying stocks and sometimes it's a good sign if they're buying a little bit higher. But I'm not really looking for that cause I think the market's coming down.

I'm looking for stocks that already got destroyed. And believe it or not there's a ton of them in this market. Because it's so heavily weighted towards the Apples, the Facebooks, the Netflix right now, the Googles, the Amazons, that those stocks are doing well. Apple is at an all-time high and Amazon's at an all-time high, pretty close to it. Where, a lot of the underlying stocks are not, you know? And they've gotten crushed and people aren't really realizing that and just saying, "Well, the markets-"

That's why when I'm saying the market is now 15-20% maybe it doesn't, maybe it comes to like seven, eight, nine percent. But, a lot of the big name stocks could get hit pretty hard and take the market down even further. Or, even those mid-tier stocks could get hurt that have been doing well, as well.

So, I'm looking for names that I could buy that are incredibly cheap that everybody hates right now. And I'm actually, it's kind of like a value strategy. I'm not trying to catch a falling knife. I want to see

insider buying. I want to see the underlying news of why the stock is down. Is it something that's temporary? Maybe they pushed sales out into future quarters. It's a biotech stock that had phase three data that didn't come out as positive as expected. That stock's gonna go down 40-50% immediately. Does the FDA want more? They just said, "Hey, we want a little bit more data to make sure this is a safe drug." Alright, well that can take another year.

You're getting a stock that's down 50-60%. Everybody ran to the exists and you're getting their pipeline for free. And sometimes, these stocks will trade down to the cash they have on their balance sheets. Like it's actually more than what the mark-up of their company is. There's a lot of disconnects right now because of algorithms. Algorithms are basically like front running. They don't care about fundamentals. That's debatable. But they don't care about fundamentals or anything. They're looking at the trading activity and based on what side they're basically able to front run some of these orders that they see. And instead, there's a reason why when you're looking at stocks that miss earnings they'll be down four percent when they open and they'll finish down 15%.

Or on the other side, you'll see stocks that open 3, 4, 5 percent higher and they're like 17% higher. It's not necessarily short cover. So, a lot of times for me, I'll look at this and say, "Wow, this is a really good opportunity." Or, maybe you're seeing funds get out of a stock or something like that. That's what I'm doing right now. I'm trying to look at value which has been incredibly out of favor but value, where I'm seeing that you're limiting your risk tremendously.

How do you do that? Well, let's see if this company needs to be funded. If they have good balance sheets and you want to see strong insider buying. Not just by one or two people. Maybe by a couple of these hedge funds that have a big stake already. They're adding to their positions here. And that's some of the things I'm looking at. That's a strategy. That's one of many strategies I'm using right now. And it's been working tremendously for our newsletter where we'll pick off companies down 30-35% and all they need to do is report a little bit of good news or go from less-bad to bad or bad to less-bad, whatever you want to put it. But, once they see a little bit of a turn, they're trading at such a huge discount that these things will pot 15-20% off their lows right away. And that strategy has been working for us pretty good over the past five or six months.

Mike: One of the things, in the last year that I've been exposed to the retail investor newsletters, there are some institutions that

subscribe but I get a lot of email questions, I get a lot of direct messages and stuff like that and I think the one thing that has probably surprised me as much as anything else has, has been portfolio sizing, position sizing. When I'm going into a position, so my investment style is deep, deep value on the long side and on the short side I'm looking for companies I think the expectations are either way ahead of themselves or they're fraudulent in some cases or I think a catalyst is identifiable. All of them, I think, a catalyst is identifiable. I'm early, especially on deep value news but even on the shorts. I start a position, if I think I'm shorting a stock and I'll make it up, it's $40 and I think it's worth 25 or 22. But if I've identified some catalysts and the stock has still got a little bit of momentum in it or not strong momentum but it's moving higher, I scale into it.

I might start at a quarter position and I'm actually rooting for it to go up. You kind of work the idea. you do more research. You're getting more comfortable with it. You're comfortable enough to start the position with the catalyst and the price target. But it's amorphous and you get to touch it and feel it and scale into the position over time.

One of the things that surprised me in communications with people is you get the sense that they like a name and they go all in. It could be 20% of their portfolio. It could be 30 or 10, whatever, without scaling. For me, a big position in a traditional portfolio not something that has a specific focus but could be an 8, 10 percent position. But it surprised me. I try and educate people in the newsletter. Okay, we're going to start a position on this company as something I've identified that I think is gonna go down and we're really going to start with a quarter position, a third position, we're going to scale into it.

How do you think about position sizing and scaling portfolios for your newsletters and for your subscribers?

Frank: Yeah, it's a good question. Remember, I was at the institutional level at the street dot com whereas mostly my newsletter is based on yeah, this is going to grow and these are the catalysts that are going to drive stocks higher. But we have to realize that there's brilliant people out there that want to learn from us about the stock market and they have incredible jobs. It's just not what we do.

Mike: Absolutely.

Frank: For me, I try to pound the table on it.

PART 2 OF 3 ENDS [00:40:04]

Frank: ... for you, so for me-

Mike: Absolutely.

Frank: I try to pound the table on it and even when you do it's hard and for us we're teachers, right? And why are we teachers? Because we made a lot of these mistakes over the past 20 plus years we've been doing it. It's not like, oh we're some kind of genius. No, we've lost money doing a lot of these things and we don't want to see people doing the same thing.

Mike: And I still do.

Frank: Yeah, yeah. We all do and we all make mistakes-

Mike: Yup.

Frank: And you want to limit those losses, but the bottom line is you want to buy a stock at the cheapest price possible and sell at the highest price possible, which everybody knows, but in doing that, in today's market you don't know what's going to happen next quarter.

I mean, if you buy a stock and they just report a bad quarter or something happens where, again, it's delayed orders or something and whatever it is you could if you take a full position right off the back you could see your stock get crushed. So, I ... We sometimes take full positions. Sometimes we take half positions, but I try to urge people, it's only because we're talking to a very, very huge audience that sometimes I always reiterate that look if you can scale on some positions. I mean, for me, and it's something I didn't mention before, which is very, very important, where I said I'm not trying to catch a falling knife, before I recommend these stocks I need to see catalyst-

Mike: Right.

Frank: Because if you're going to buy value without catalyst you're going to get destroyed.

Mike: Yup.

Frank: You think what's gonna turn this around, what's gonna turn sentiment around, so my stock picks are based on a 12 to 18 month

outlook based on what these catalysts are going to ... But when they're gonna come to fruition. I don't know if they could be a month from now, three months from now, nine months from now, but they should and when they do, that value is going to be recognized in the stock.

Mike: Right.

Frank: So, for me, I'm always conscious of it, but I also understand that some of our stories are gonna be better than others, like shorting Tesla is an amazing story. You're seeing it on TV yet we bought a specialty chemical company, it's down tremendously, it's a boring business, and stock's up like 15, 20 percent for us. And I know that people aren't gonna really buy that.

Or, one of the stocks we recommended, because I got nailed on a couple of value picks about when I first started my Curzio Research Advisory last, my lower price product. We got off to a little bit of a rocky start, and a lot of the value names got crushed. And my late dad, who's been in this industry for you know, 30 years, he's a pure value guide and been working for Cramer for a good five, six years. I learned everything about growth and we really switched strategies which really helped us out, and I recommended Amazon at under 1,000, like 900 or so. And I'm aware that a lot of people would see a 900 dollar stock and say, "I'm not getting into it," but yet it's all about percentages. If you buy a dollar stock and it goes up 10%, you made 10%. If you buy Amazon, it goes up 10%, you made 10%, even though you own less shares. Nd that stock's up 100% for us.

So, I try to pound that issue for subscribers and say, "Hey, even though the stock price is higher, it's about percentages. Try to diversify, because I don't know which stock is gonna go higher. If I did I'd only recommend that one stock and we'd all be like on an island high-fiving one another, hanging out. I wish I was that smart."

Mike: Looking good Billy Ray.

Frank: Feeling good, Billy ... feeling good.

So yeah, but I try to pound that issue into ... And that's why these podcast help, right Mike? Because it's not just writing, where sometimes they don't feel it, but when they hear me saying, "Guys, just diversify." I get it, I understand some stories are gonna be greater than others, I understand you don't wanna buy a 900 dollar stock that people know about. But I didn't recommend Amazon

because I wanted to be safe, I recommended Amazon because I analyzed 20 other companies in the cloud industry, and they can't hold a candle to Amazon. Amazon's gonna see much, much more growth than them.

Mike: Yeah.

Frank: Which, like the stock that you never heard of that went up 20% percent, yeah you probably would of, but Amazon gave us 100% gains, which is significant because if you own that, you're doing fine on portfolio and we have a lot of winners. If you don't, then you're maybe not doing as good, because they are a couple losers in the portfolio and maybe you don't own all the winners. So, diversify is key, which is 101. I will say that I don't know any billionaire that diversifies, they put all their money ... So if you're young and listening to this, you put all your money into one stock, if you lose it you still have working power forever, but it all depends on what type of individual. If you're a retiree, you have to diversify, you have to be smart, and if you can scale into these positions and own them over time, just follow the advice that we're saying in our newsletter. If you do, you should be doing pretty well, because Mike and I's been at this game for a very, very long time.

Mike: So what's going on in crypto-land? I've tried to get smart on it, I'm busy and I just don't have the brainpower right now to devote to it. And every time I look at it I spend a little time on it, I'm like "Frank figures it out and other people know it so-"

Frank: It's a fascinating industry, what you need is regulation. And that may sound crazy to people, because crypto's supposed to be, oh there's no regulation, that's the excitement behind it, that's why people ... I'm not talking about regulating it to the point where it's like Dodd-Frank with the banks and you can't do anything. I'm talking about in 1934 after the Great depression, what happened? The SCC was created and basically there was accountability, you had perspectives, you [weren't 00:45:08] held accountable as CEO, or you knew what you were buying. Where, right now 99% of the hackers are employed. Why are they employed? Well because it doesn't pay to rip off someone for a 100, 200,000 dollars, when a bank's gonna pay you a million dollars if you're a great hacker to really make sure you can't get hacked and your systems can't get hacked by [fortune 500 00:45:28] companies.

But the reason why you're seeing so much hacking in crypto is because if you put 100,000 dollars to buy cryptos and somebody steals it, you know who's chasing you? Nobody. Because there's no

laws. So even with your bank account ... I got hacked in one of my broker's accounts, so 25,000 dollars. They hacked into the account, they did a third-party wire, it was really the broker's fault, they didn't contact me. Whenever I wire money, I contact them directly. But they covered it immediately, if they didn't, I would never use that broker's firm again and I'd be skeptical. But I know that even with my bank, FTIC, they're gonna cover ... You need that. For the SCC to come out and really make sure that these people are really held accountable, because 95% of the ICO's are probably gonna go out of business. Before you say, "That's crazy," the 5% account probably for 85, 90% of the market cap, right. But these little ones that raise money overseas, I mean these two types of tokens, security tokens, utility ... If you're an utility and you raise money overseas, if you have residence in the US, you have to pay taxes on that. And you have to pay taxes on last year's rate, not this year's rate [crosstalk 00:46:35] probably created last year. So if you raised 10 million dollars, that goes to 8 million dollars.

Now you raised that money and you're keeping it in Ethereum or Bitcoin, which is down 60%. Now these kids are, you know, "here's my idea on a cocktail paper napkin, here's what I'm gonna do," they have no operational experience, no nothing, and they generate 10, 20 million dollars, it's insane. So if you're in a newsletter where this isn't being highlighted, be very, very careful, because the token isn't even a part of the actual company, there's no equity, there's no tie, there's no asset. It's based on the utility of you using that token for the website. So the token could go to zero, and the company could still be in existence, it's not like an IPO, it's not like a [crosstalk 00:47:20] trading company. And these token are only being used to raise money, and then after that they don't care where the token goes. I mean, if it goes higher, they own a ton, but hey, if I just raised 20 million dollars, what do I care if the token goes to zero, I got 20 million dollars to try to build my company.

And the fact that it's overseas and no regulations, I'm sure these kids have Ferrari's and have no-

Mike: What did you say, Frank? On that twenty million they raised, are they even legally obligated to go out and really attempt it? Or is it just like giving them 20 million bucks to do with it what they will?

Frank: That's what it is, to do with it as they will. They don't really have ... there's no laws in the industry, so you don't know where this money is going, you don't know if ... They basically have a white paper and say, "Okay, here's our site, here's what we're gonna do," but these are ICOs that are securities, right? So if you're thinking

about coming back into the US, it's almost gonna be impossible for you to register with the SCC, because you're gonna be taxed immediately, right, because you raised money as an utility. And not only that, if you come back to the SCC, you're probably gonna go to jail, because everybody that gave you money, you're didn't tell them that, "Oh you gave me a $100,000, it's only gonna be worth $70,000 because I just paid taxes on this." I mean think about this for a minute [crosstalk 00:48:33].

So people are like, "Oh well I want regulations," you don't understand, the SCC is a double-edged sword. It's great because it puts a stamp of approval on it, but these guys are gonna have a you-know-what up your you-know-what, right, and they're gonna check your cabinets and everything for money ... And it's a great thing if you're able to register, with that said, I think it's a tremendous, tremendous opportunity because right now you have an exchange where you can use the crypto markets and Blockchain technology for companies to really establish a market and go directly to the people for funding. There's a reason why every bank, why Goldman Sacks is investing money in this. They started, they have a digital trading division now, you're looking at J.P. Morgan getting into Blockchain, [Fidelly 00:49:19] hired crypto guys. Because this is, I think, unintended, kind of which we saw with Amazon, which is an online bookstore, right. Now they've realized, "Wow, great distribution system, let's sell everything in the world and then get into cloud after that." Then you had Netflix, which used to be, you got the DVD's in the mail, now it's a streaming company.

What they're doing right ... I don't think they get how important this exchange is, because companies that say, really companies in existence that generate maybe from a million dollars to 20 million dollars in sales, that's still too small to go on a regular exchange. And if you raise money, or run a US exchange, if you raise money through venture capital, they're gonna want 15% on your returns, they're gonna rake you, they're gonna have people on a board of directors, you know it's very difficult. But, this a market where you can bypass a lot and go directly to the people and fund really, really good companies where that token is actually an equity stake tied into your company. And I think people are missing that point and this could be a much bigger thing, like I could see hundreds of companies in three years trading on this exchange that this token represents an equity stake, and maybe pays a dividend.

Instead of going this route, where it's cryptocurrency, you don't know what the hell is going on, but it all starts at regulation. And

once the SCC comes in, which is expected in the next 3 to 6 months, I think you're gonna see a lot of these companies have trouble, maybe the industry falls a little bit, but that's when you're gonna see the ETFs get approved. And I've talked to a lot of family offices out there that are looking to put money into this industry, but they can't because it's not regulated. Remember, they're imaging other people's moneys, they have to be smart about it, the family offices are usually managing their family money. But even institutions like Goldman Sacks, they can't really put money into this industry, they have a fiduciary responsibility to make sure that they're covering all the angles, and they really can't right now since it's not regulated.

So to answer your question I'm very [bullish 00:51:04] on this industry long-term, we're probably gonna see more short-term weakness. But it's definitely a real trend, there's definitely a need for Blockchain and Bitcoin as a digital currency and you're gonna see a lot of these ICOs turn into STOs, which is Security Token Offerings, because the SCC's gonna make sure, and they're gonna deem every single one of these a security. And once they do, I think they're gonna see a lot more money pour into this industry.

Mike: So, with the newsletter, the crypto newsletter you have, it almost seems like it's about as much as educating people as it is monthly saying, "Hey, here's a new idea that we think is undervalued." I mean it seems to me that you can really accomplish both. So how do you position the newsletter, between education and idea generation?

Frank: And that's the thing, we wanna be careful because over the past couple months we've seen ... And that's the thing with this industry, where everything's tied to Bitcoin and Ethereum. So it doesn't matter what you do, what your business is, if Ethereum and ... 'Cause the coins aren't tied to the actual businesses. So if they businesses are doing great, if Ethereum come down and Bitcoin come down, these things are gonna tank. So during this period we're careful to recommend new things because we know no matter what we recommend, it's probably gonna come down. So, that would be like an educational thing, and we're sending out more content, sending out some of the things here, "Here's the ones that we like, we wanna see a little stabilization," or, "here's time to add a little bit." But we're very ... In my newsletters I usually use stops, this way you limit your losses, and this, you know, I'm telling them that these positions have 2% in them, so if you have $10,000, it's 200 bucks, right? And people might say, "Well that's not a lot," well we've seen these things go up %0 times, which would equal

a $10,000 investment. Now you have $20,000 and it's $400 to put into these things. But when you're looking for even 5 times gains, you know this as well as anyone, you're gonna have to take on an exceptional amount of risk to get those gains.

So you have to know this going into crypto, that hey you know what, I have 10 grand, or 5 grand, or $1,000 that I could lose, I'm gonna diversify in a couple of these things, that 10 grand could turn in 20, 30, 40 grand. If you have that mentality in a 3 year outlook, if you diversify, I think you're gonna be really happy in this industry and you'll do very well. But if you're gonna put everything in one cryptocurrency and say, "Here it is," that's extremely, extremely dangerous, and once you lose that money, you're gone. So this rocket comes back three years, you have no more money to invest in it, and that's be tough.

Mike: So, I mean as I think about cryptos and I think about you're really getting up to speed, or you are up to speed, not getting up to speed, but it's evolving so fast, so you're always having to stay on top of everything, and you're educating people and you have some ideas. The only question I have, and I struggle with, is thinking about you wearing skinny jeans and hanging out, and driving a Lamborghini. So where do you fit on that scale, being you are doing in the crypto space now, have you gotten into the skinny jeans? And is your ambition to get a Lamborghini, I mean how're you thinking about that?

Frank: I have to lose about over 50 pounds to get into skinny jeans, so you don't have to worry about that, and the Lamborghini? No, because I don't think I'll even fit in one right about now. I'm more of an SUV guy, and that's on purpose, because I really don't fit into those smaller vehicles. But it is crazy when you see ... You know, again, we're talking about kids that are creating these companies, that actually are very brilliant when it comes to the technology behind it, but it's almost like a biotech, Mike. Like a biotech's job, a small cap, is to get FDA approval. And you do everything you can to get these doctors and scientists, and once you get FDA approval, there's a reason why biotech's stocks crash, after the FDA approval. Because you have to become a real company, you have to get people who know how to buy facilities, you're gonna get inspections on these facilities, you gotta go to the healthcare companies to see if they're gonna cover your drug, you gotta hire hundreds of employees and sales agents, and that's where the operational experience is lost. Where they're like, "Yeah, I'm gonna create this platform," and they might be able to get it up and running, but there's so much more to a company than that. And that's where

these companies are gonna get lost and you're gonna see a lot of them get hurt.

And you're seeing it now when they raise tons of money that they weren't prepared to pay taxes on, and they just saw their currency that they raised it in. Like what, if I'm raising money, what would you do, Mike? I'd put it into the dollar, right? Put it into the dollar equivalent, or whatever. This way I know, there's a reason why Walmart and Target, they always hedge their energy costs because they're trucking in such a big cost. But at least I know, based on the 20 million I raise, this is what I'm gonna do over five years. These guys just put it in cryptocurrencies, and they're like "Okay, well, this is what we'll do in a couple years," well it just went down 50%. People don't understand that the money you just gave this company, they're down 50% because they didn't put it into an equivalent of US cash or anything, they kept them in these cryptocurrencies as gambling. And there's gonna be a lot of people that get hurt that really don't know it in this industry. With that said, again, I think there's tremendous opportunity, but you need regulation to come to monitor this stuff. That way these people are confident they can put money in a broker's account, buy one of these cryptocurrencies, and not worry about it getting hacked.

Mike: That's pretty cool. Well listen man, I appreciate you taking the time, I know you're busy and it was good catching up.

Frank: Nah, I always got time for you man, and great, great stuff, and yeah I wanna learn more about your Hong Kong trip, because we always talk a couple times a week, so I'm always interested to know everything that's going on. I know you met a lot of interesting people there and had some fun, but really-

Mike: And I lost weight 'cause I didn't eat a lot of the food, I'm more of the cheeseburger guys, so it wasn't my type-

Frank: There's McDonald's in Singapore, there a few of them.

Mike: Believe me, I found them.

Frank: Good stuff. Good stuff, man.

Mike: All right man, we'll talk soon.

Frank: All right, you got it. Thanks man.

Mike: Thanks. Okay, bye.

Well I hope you enjoyed listening to Frank, I always love speaking with him, getting his perspective. And you guys don't know, but he and I speak a couple times a week, and we go back and forth to each other all the time, right, he's more of a ... he likes value but he's also a growth guy, and he's more of an optimist, I'm more of a pessimist, so we're always bantering back and forth. So I just wanted you to hear his view on what he's seeing out of this earning season, and I hope you enjoyed it.

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