# 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 August 22nd, and I'm Frank Curzio. This is the Wall Street Unplugged podcast where I break down the headlines and tell you what's really moving these markets.

You know what? I've been at this game for quite a while, 25 years. Pretty amazing when you think about it. To retirees, it's exactly what you love to hear when it comes to someone giving you advice for investing. To millennials, probably the worst thing. "Like, man, Curzio. You must be freaking old. 25 years." Which is true. I feel older now. But over these years, I've seen so much take place in this industry, remarkable things. Just extracting information, how fast you can, different services, systems, social media, online newsletters. We used to have to deliver it. I remember licking stamps for my dad and put them on envelopes, and stuffing envelopes, and bring it to the post office. That's how you used to get newsletters.

Think about that. By the time you finished writing it, it was probably another two weeks before that pick or your sense of the market, anything you believed about the market got to someone's doorstep was two weeks later. If you're the younger generation or probably been doing this for less than 10 years, that's insane to you, right? Especially today, where everything has to be, stories have to be inflated. The markets move like crazy, and algorithms. It's kind of amazing when you see what's taking place, at least again, over the last 25 years or so.

Even when it comes to television, right? Financial TV. CNBC. I remember going there. My dad used to take me when I was little kid. Remember Maria Bartiromo, and she was just a kid at the time. Wow. I was just a little guy. Dad used to take me to CNBC

and Bloomberg and all these places. [inaudible 00:02:13] from having a few anchors to becoming industry leader when it comes to the amount of people watching. I've seen Bloomberg grow tremendously. I used to go there as well. My dad was on TV when I was younger. He used to take his little kid. I'd sit in a chair, watch him on TV.

Warren Buffet was there once. And we're talking ... man, I was just a little kid ... we're talking over 25 years ago. It wasn't like Warren Buffet now. He was definitely popular. He was rich. It was a big name, but it wasn't like it is now. And I remember asking my dad, because he was excited. I didn't know who this guy was. I was little at the time. And he's like, "It's Warren Buffet. It's Warren Buffet." And again, he was a big name back then, but again, not like today. There wasn't social media or anything. And I said, "Dad, why don't you try to get his business card or something?" And I'll never forget what he told me. He goes, "Son, guys like that, they don't have business cards." Took me a while to really understand that, but it made a lot of sense.

And my dad actually wrote a book, which is a short book, and he sent it to Warren Buffet. And Warren Buffet actually wrote back and said, "thank you so much," and "I loved it," and signed it. It was a real signature. He just signed it himself, and I have that letter today, which is pretty cool. But it's awesome going to all these places and just really cool stuff, right? Who knew? People were really high on Buffet then, but now, forget it. It's insane. You can't even get a ticket to go to the annual conference in Omaha.

But just really cool stories. Most of you see Fox Business News, right? They came out and doing a different things, and I was anchoring it ... not anchoring it ... but I was on there pretty much three times, sometimes four times a week at one time, Fox Business when I was on Wall Street. All great platforms for individual investors who want quick updates on what's going on in the markets, right? Just put it on TV. If you want to hear from some of their favorite analysts, right? Also a good outlet.

I appeared, I mentioned, on these sites number times over my career. But the one thing that really bothers me is the model. Because their models back then, it used to be, "We need to have high-quality analysts on." When my dad was on television, there was only like 10 people, and he was one of them that you listened to. It wasn't like thousands today, different opinions. There was

only a certain amount of people that were on. Again, it was a lot smaller, tight-knit community, not as many investors around. Gabelli was one of them. Navellier was one of those people. And people that you still see in the industry today, incredible. Sue Herrera was doing a lot of those interviews at CNBC back then. But their models have transitioned from having these quality people that know what they're talking about, and good analysts with good track records, to entertainment. Right? Which means more page views. And I'm not knocking them for doing that. Right? They're businesses. They need to generate profits. That's how you do it. And I guess it makes sense for all media companies.

A company like Disney, right? Owns ESPN, where they gave the Arthur Ashe award to Caitlyn Jenner, right? An award for bravery. And this is the award that gave to Jim Valvano, who after that speech, it didn't take long for him to pass away. And it was someone I'm a huge fan of, a huge college basketball fan. But he came up and did an amazing speech, right? Jimmy V Foundation, which raised tens of millions of dollars for cancer research now. Pat Tillman, he was playing football. Left to serve his country. Died serving his country. Billie Jean King, broke through a glass ceiling for women. Nelson Mandela. Muhammad Ali. But you have Caitlyn [Jenna 00:05:42] who's a media ... and I won't use this word, it begins with a W and a H. I won't use it ... would really only do this, accept the award, if Disney was going to really mention or back her new reality show. Such a controversial figure that they know a lot of people are going to watch it. They want people to argue about it, because that's what's going to get more pay views, more advertisers, more money. And even with that, I get it, because these companies have to generate sales, earnings, cash flow. They're businesses. They have shareholders.

So, it makes sense that financial media outlets like CNBC, Fox Business, Bloomberg to have analysts on their program that make bold calls, like the Peter Schiffs, the Harry Dent, the Tom Lees. Not picking on anybody here. Just saying. Because they're able to take those crazy 50% crash calls that they've been predicting for the last five years, or Bitcoin's going to whatever, a million, a hundred thousand, two hundred thousand. And they'll turn them around, use them as headlines on their website, and they'll get tons, monster paid views and generate a fortune, right? Which is what you want to do for your shareholders. Again, I'm clicking these stories as well. Just bringing up a point here. And to be honest,

I really don't mind or hate the bold calls if truly ... right? If that analyst truly believes that after his analysis that the market's going to crash. That's fine. They're right or wrong. I have a conviction in my stocks that didn't work out. I get it. I'm okay with that. Now, what I do hate, and the point I'm getting to here, is there's no accountability.

I don't really see these anchors calling out the analysts for being dead wrong, especially the bears for over the past eight years on the same thesis. "Our debt's going higher. Our debt's going higher. Our debt's going higher." In the meantime, stocks are going higher and higher and higher for seven, eight years. Change your thesis. Find out what's wrong with it. But don't go on TV like you've been right all the time. It's very frustrating. It's okay to be wrong. All of you, I don't care how great you are ... look at Einhorn. I know he's one of the best investors. It's five years now he's going on a horrible streak. He won't change, which I'm surprised. He's not changing his style. He's sticking to this style. I think you need to adapt, and you're going to hear a great ... I'm telling you, this interview's going to be fantastic coming up in a few which talks about this ... not just focusing on one style of investing. It's very important. You see me do this in both of my newsletters. A lot of growth picks in those newsletters, and I've done fantastic, because a couple of value picks I picked earlier didn't do that well. It's not a value market. People don't want value. They want growth. Now we're doing great in a lot of those portfolios.

But they don't call out these analysts for being dead wrong. Or calling out the analysts that made bad picks, right? Last time they interviewed, like just a month or two later, which they do on Fast Money, which I like. And you'll see Cramer get called out on these as well, since he's on CNBC every day. But for the most part, a lot of these guys are on the show, especially early on CNBC, Bloomberg, they don't really call them out. And you're looking at it. Most of these guys make these crazy predictions. Why? To get air time. They get huge publicity after the fact, right? They get on there and make a crazy call, and then what? It gets mentioned every place. There's going to be a place where this guy's from. You're going to get people going to CNBC to see this guy, want to learn more, and then they're going to click, go to his website. They're going to get tons of new names, people visiting their website. So basically, they're taking on zero risk for making these crazy calls. And a lot of times, they're crushing the people that are listening to

them.

Like in October. I wish I can go back, because I got so much heat for this. And again, I talked about wrong picks. Now I'm going to talk about something that I was right, dead right on, which is retailers. The big box retailers, department stores, everybody, the same guys that are on TV right now, because retailers are surging, were telling me Best Buy was going out of business. "Oh, they're in trouble. They're dead. And Macy's, Kohl's, these guys can't compete." And you go in during the holiday season, you can't even get a spot in the mall. These guys are jam packed. They're not dead. You look at it. Is it decline? Yeah, decline. But they're figuring out the mix between online and big box. There's a reason why Amazon's opening big box shops. There's a reason why Microsoft is. There's a reason why Tesla is. There's a reason why Apple is.

Best Buy figured it out, because people are not going to buy ... oh, not just Best Buy. People aren't going to buy clothes online, right? They're going to go there. They want to try them on. It's important. And when it comes to a company like Best Buy, it's at a 52-week high, a company I've been bullish on for how long? They found a way to compete with Amazon. They learned. They adapted. Because no one's really going to buy a big-screen TV online. They want to try it, and they used to go to Best Buy, try the TV, and then buy it for 15% cheaper on Amazon. So Best Buy said, "You know what? We're going to match that price now. You come in. We'll show you a TV, and not only that, we have our services divisions, which is Geek Squad, and we'll throw it on your wall so you don't see wires all over the place." And they make incredible margins on that. Smart business model.

But companies are learning to compete. It doesn't mean they're going to completely go away. And now you're seeing retailers up tremendously from October. And the same guys that were saying the industry's dead, it's done, the malls disappear, they're on TV right now saying, "Oh, retail is a great sector to invest in." Right? There's no accountability. I'm watching this laughing right now.

And I feel proud, because I remember I was on stage in one of the conferences in San Francisco, and there was like seven of us at the end of the conference. And Rick Rule was there. I think Jim Ricketts was there on stage. And it was a pretty big audience. And they asked Rick Rule, "Do you want to ask anyone here a question?" And he actually turned to me and said, "You know what, Frank?

I want to ask you a question, because you cover all industries. What industry do you like right now?" And this was, I think, at the beginning of November. And I said, "Buy department store retailers." I said, "Big box retailers are not dead. They're trading as if they're going out of business. They're actually making money, generating cash flow, but they're completely out of favor, and they're overdone." I was proud of that call. I was proud that Rick Rule, who's been in the business for 40 years, actually had a lot of people to choose from to ask a question, asked me. I was honored by that. Big fan of Rick's.

But just the accountability thing. There's no accountability. And that's one of the reasons why I wanted to start a product that held analysts accountable. And if you're a great analyst, you love this. Why? Because you worked your ass off to make a name for yourself. Put in the hours, learned, made those mistakes over a long career, and what do you do now? You're watching other people get on TV, and create newsletters, and make a fortune, not because their performance is better or they worked harder than you, but because there making stupid, bold calls that results in page views, that results in people purchasing their newsletter because they want to learn more about, "Oh my God, the market's going to crash."

How many times have we heard the market's going to crash over the last six, seven years? Think about it, guys. How many times? The same guys are still calling for it. If the market literally crashed 50% from here, they'd still be wrong from their original call five years ago. It's insane. Which again, we get things wrong from time to time, but these are the guys that have seen more business than ever just scaring the hell out of you. And you know who gets hurt? You, the investor, gets killed because you're listening to these guys. You're subscribing to their products. You realize they're full of crap, but if you subscribe to their product, it's too late. But that's what we're seeing a lot in this industry. And not just in the newsletter industry, but in the industry in general. We've got hedge funds using the media. Right? Ackman getting on and ICON. You never saw hedge funds go on TV ever, ever. It's insane.

Anyway, there's accountability, and it was a big deal to me and something that I've heard from you guys. And we create a product called the *All-Star Portfolio*, and that avoids all the hype. It's about getting real stock picks from professionals that we track to make sure we're partnering with the right people, that I'm putting the

right people in front of you when it comes to interviewing them on podcasts. And if a guy comes to this podcast and recommends 7 stocks, 10 stocks over a year period, and 9 of them are down 60, 70%, and each time he came on, he never talked about those stocks, I'm not going to put him in front of you. It's my responsibility not to put that guy in front of you. Even if it's a big name that I know is going to increase the viewership of my podcast, I'm not going to do that to you. Because I'm not in this for a six-month check or getting tons of people to listen to this, getting some crazy guy on here. It's a big deal. There's a lot to be said of that.

It seems like the right thing to do, but I guess it must be hard to do, because a lot of people don't do that. "Oh, we can pay these guys and get these guys. They got a big following. Throw them into this sector that's hot right now." And then they get wrecked. They get destroyed.

So *All-Star Portfolio* was created because of you, from hearing from you. It's a new product. It's a newsletter where I take one pick from the experts I interview on this podcast every week. Well, not every single week, because sometimes I do interview CEOs, right? Obviously they're going to talk about their company. Not all the time, but most of the time I do have analysts here that give a lot of picks. And we take one of them and throw it in the portfolio. Sometimes they'll mention this during the interview or they'll mention it offline before or after the interview and talk to me, because that's what we do. We talk about picks, different things we're writing about. And now you have access to an amazing network that I'm always humbled by, but it's one of the biggest out there, one of the biggest on Wall Street, because I've been doing this podcast for 10 years. Interviewed well over 1000 people.

Having that network allows me to see what other people are doing. Doesn't mean I'm going to say, "Wow, you like this stock," but when people mention it, I put it on my radar. I see what's going on. I'll watch for six months, a year, two years. But just getting familiar with it, understanding it, and knowing that story, and then just hey, all the sites that I look at, and watching the stocks, and just watching where these things go, and you'll see it come down to 30, 40% on a bad quarter on something temporary. I'm like, "Wow, I know this story. I'm familiar with this." Maybe I'll call up that contact and say, "Hey, you still like this stock?" And they'll be like, "Yeah, I still like it. I love it. I'm buying more." Well that's cool.

That's a good recommendation there. Buying a stock that a great analyst like 30% higher, and now came down in the market where algorithms are dominating. If something goes down 10%, it's down 30% at the end of the day. Turned out to be a great stock pick.

So this is the way I have been able to get great ideas, having a network of people. And now I can share that with you. And we take these stocks, track them in a portfolio. And I'm out to get around three picks a month, so it's almost every week, you're getting a brand new idea from a great analyst, one of the best in the world, where we put 15% stops on these positions. Right? We want to limit our downside. Also that creates a little bit more turnover, which is cool, because at the end of the day, if you're subscribing to this product, you're going to have 40-something stocks in a portfolio at least, and you're not going to be able to buy them all. But it always gives you fresh ideas.

We'll also write up a quick report on these stocks. We'll include the analyst's name, the company they work for. Again, we want to give them credit and stuff like that. And we'll profile the company, talk about the fundamentals, highlight the catalysts. And then, most important, is we track the performance.

Because that's accountability. Like you see with me and my products when you go back six, seven years in our archives for *Wall Street Unplugged*. We've been doing it for 10 years on other networks and stuff like that [inaudible 00:17:27], but you can listen to all my recommendations, all my podcasts, everything I was saying. At Curzio Research, you can go in and look at archives for every single newsletter I wrote. We don't take those offline. Yes, I have a few picks that I regret, just like everybody else, but the winners far outpace the losers or you wouldn't be listening to this podcast, you wouldn't be subscribing to my services. And the day that doesn't happen, I say this all the time, is the day I'll stop doing this. But you can go back and see this. It's not a bold call I was making for eight years, and then when you see a 20% market correction from here, I'm like, "Hey, I told you about it. I told you it was going to crash." You told me it was going to crash. The S&P is up 100% since then. You're still wrong. But they're going to take credit if it does come down now, because they just keep calling it, and calling it, and calling it. And it's crazy.

But accountability's been such a huge thing for me throughout my career. That's what I was taught at a very early age, even from

my dad. And I think it's a huge benefit to individual investors. Why are you listening to a complete idiot that's on TV because he makes a bold and stupid call to get attention? And you avoid that. I'm not saying this as a shameless attempt to sell a product or to promote a product here. But since we launched *All-Star Portfolio* newsletter a few months ago ... and by the way, if you're a lifetime *Curzio Venture* subscriber, you get this product for free. It's one of the benefits. But we've gotten amazing feedback. When I look at this, this product just makes sense. And that's after hearing from you on so many levels. Accountability we talked about already. We track the performance of every analyst I interview. But also you're getting stock picks from my huge network of expert analysts, a network that took me 25 years to build.

And these picks are awesome, because they include longs, shorts, value, growth, small cap, large cap, international, everything. And I can tell you, there's not a product out there that's like it. That's why I love it so much. And what I like best about it is it's a cool introductory for new listeners. And we get new listeners all the time coming to this podcast, and they want to learn more about you. New people coming to the platform, first time seeing you. And this is a good product for that, because you get to see, like, "Hey. What's Curzio all about? Let me see this newsletter." Accountability. Have all these analysts recommending picks. It's pretty cool.

And for us, we charge an incredibly high price for this newsletter. It's very expensive. It's a dollar. The *All-Star Portfolio* is a dollar. Why do we charge a dollar? It's the same reason why Dollar Shave Club charged a dollar, because they said, "Here's our razor. It's the best, and we're going to charge you a dollar for 14 days. And after that, it's 9.95 a month after that," which is like two lattes at Starbucks a month. But Dollar Shave Club said, "Hey, we have a great razor. Try it. And once you do, we know that you're going to stay with the product, because it's that amazing. Because we have something that's amazing to sell. So it's not a high-price sale. It's not anything. It's a dollar to try it, because we know once people try it, they're going to stay in it, and they've been staying in it. Getting very few cancellations." Dollar Shave Club sold its business ... what was it, a billion dollars, right? They grew that business to? Guy created that commercial. Go look at his story. Unilever bought it for a billion dollars. They disrupted a massive industry right under Gillette's nose. Right? [inaudible 00:20:46]. Kind of amazing. That's what we're looking to do here.

Here's quality analysis for very, very cheaper than anything out there, and you get to track it so we're not full of shit, which is important. And it's a dollar for the first 14 days. If you like it, don't do anything, and it renews for 9.95 a month. Very simple. If not, just call us and cancel. Very simple. We're not going to convince you or try to say, "Oh, you should ..." No. It's very simple. If you like it, you like it. If you don't, you don't. But it's just a way, it becomes accountability, tracking performance, and getting the proper research in front of you. I understand the entertainment factor. I get it. We want to be exciting. I travel all over the world, and I try to be exciting, but a lot of people find that exciting. They find the stories exciting, and they think the podcast is funny with the introductions and stuff like that. But in the end, if you're paying for this stuff, you have to make sure that analyst knows what they're talking about. You have to make sure they have a good track record. The only way to find that out is to really track them. And this is a way to do it.

And every analyst I talked to about it is on board with it, because these are great analysts. The analysts who are not on board with it ... I haven't talked to anyone that I interviewed who's not on board ... but I could picture people who don't write their newsletters don't do anything like, "No, no, no, no, no. Don't throw anything in there. I don't want you to track me." Which is a red flag, and you'll never come on this podcast. I'll never interview you again, and you'll never be part of this platform. Because you should be held accountable. You're going in front of a lot of people. You're using my platform to do it to get your word out to a lot of people, which is cool. But make sure that you're honest. Make sure you're a good analyst. And this is a way to track it, the *All-Star Portfolio*. But listen, you don't have to listen to me about it. If you want to check it out, www.AllStarPortfolio.com. It's literally a dollar to try it. You'll find all the information out there, and you can ask me questions if you want at FrankCurzioResearch.com. But again, everything is on AllStarPortfolio.com if you want more information about it.

And thank you so much, guys, for the feedback. And I get a lot of questions, and that's why I do that introduction. Again, it's a dollar. I'm not going to make a fortune off this. It's not a sales pitch. But you need to have the proper people in front of you giving you advice. And that's one of the things that disgusts me with this market, because there's so many people that should not be giving advice on TV, in the media. And they do not understand that

responsibility that sometimes hundreds of thousands and millions of people are listening to you and following your advice, while you're just taking in money. You're getting richer, not buying any of your recommendations in your newsletter, and the individual investors are getting destroyed. It shouldn't be like that, and it's got to change. And that's why I created the *All-Star Portfolio*.

Speaking of great guys, interviewing one right now. Someone who speaks often at the prestigious Value Investing Conference, a lot of major conferences around the world that he speaks at, former banking analyst, incredible source. Love this guy. It's Chris Mayer. I know he hasn't been on for a while. I know a lot of you guys love Chris, because Chris gives you out-of-the-box ideas, and he's going to do that today. It's a fantastic interview. Please listen to this, because it's so important. And you're going to learn so much because we go really in depth about how he has a certain style of investing, and something else worked tremendously that he said, "You know what? I want to understand what that worked." And it almost forced him to learn new styles in investing. So you don't want to be a value guy 100% of the time. You don't want to be a growth guy 100% of the time. Because if you're a value guy, you're getting destroyed like Einhorn. If you're a growth guy, you're doing good now, but when the market does change, ... and it will in the next-

**Frank Curzio:** ... growth you're doing good now, but when the market does change, and it will in the next year or so, you see a lot of these grown names which we're seeing now, Facebook, Netflix, Tesla, get hit now, you got to be able to adapt and use different styles of investing. Hopefully, you've been learning a lot from me. But Chris is going to go over that and he's going to give you two industries that he loves right now. I'm saying two industries because it's not like, "Hey, you should buy technology and health care." No, two, way off the radar industries that he likes and he's going to share at least three or four stock picks with you like he always does. Awesome, awesome interview coming up. Trust me, you guys are going to love it.

Then in my educational segment I'm going to break down another strategy I use that in the past make exceptional returns in one of the most volatile sectors in the world. And the strategy is going to sound absolutely crazy because it flies in the face of almost every investment book you ever read. So really cool stuff.

Before we get to my educational segment, let's get to my interview with the one and only, Chris Mayer. Chris Mayer, it's been a while man. A couple of few months since you've been on. I get a lot of requests for you. Thanks so much for coming back.

**Chris Mayer:** Oh, well, thanks for having me on. I'm flattered.

**Frank Curzio:** No, I'm flattered to have you on man. I love talking to you. We're going to get to a lot of good topics today but before we even get to these topics, I wanted to get your thoughts. The questions that I'm getting, I'm sure the questions you're getting, we're seeing markets touch all-time highs again. Continue to hit new highs for the past few years. What are your thoughts here? I've had you on plenty of times over the last two, three years and I'm always saying you got to be cautious. We use the word cautious. We're not like you've got to sell everything, you've got to be careful, but since we've been saying that a lot over the past two years and stocks keep moving higher, how do the average investor play this market where it seems like they're worried. They believe stocks are expensive. It's going higher but yet they've been thinking that for the last two or three years and been out of this market.

How are you telling your subscribers to play this marker right now?

**Chris Mayer:** Yeah, well, in the Bonner private portfolio we still have quite a bit of cash and I think we're 25% cash or so. I'd say you want to have a good cash cushion now to take advantage of prices when they come back. But like you said, I never sell everything. There's always interesting things to do. We're finding interesting opportunities for example around Europe. We have quite a few European names in the portfolio that are cheap because there's [inaudible 00:26:28] concerns there. The euros falling and so you're able to get some things at pretty good prices still.

And then there's still individual industries that you can dig in and find things that are out of favor. The energy names, shipping names are out of favor we can talk about that later. But, yeah, my playbook doesn't necessarily change that much. As the market gets higher and more frothier, the S&P 500 anyway, it becomes more difficult to find things. But generally that's always the case. I always say it's hard to find stuff.

**Frank Curzio:** No, definitely in this market where a lot of stocks are touching new highs. Not a ton. I would say less than half the S&P 500 is at new

highs believe it or not.

**Chris Mayer:** That's true. You make a good point. It's not that all these ... there's quite a few companies that are well below. And there are some challenge to industries like retailing or real estate tied to retailing. Those have been problem areas, of course. But I just find there's always stuff to look at. If you just keep your head down and you look through a lot of names, you're going to find some interesting things.

**Frank Curzio:** Now, one of the things that you use which is interesting, we call it capital cycles. It's something that you talk about that I've already talked about before. I want you to get into this part because this is money [inaudible 00:27:42] sectors and investors. It's almost like a strategy that you use. Could you talk a little bit about it? When you say capital cycles people are like, "What do you mean? Is it money flowing in, flowing out?" But you're actually using it sometimes to time the market or to time certain sectors as inflows and outflows. But you're better off explaining it to everybody and talk about it because it's a really cool strategy.

**Chris Mayer:** Yeah, well I think it applies mostly to cyclical names so it's always difficult to invest in stocks that you know are very cyclical. Whether they're automakers or airlines or shipping or whatever, energy. And so the capital cycle will give you a way to frame that, to frame those industries and give you when you should become interested in them. And it comes really most of what I know about that capital cycle theory came out of a book that came out in 2004. It's called Capital Count: A Money Manager's Report's on a Turbulent Decade. Edward Chancellor wrote the introduction. Chancellor wrote Devil Take the Hindmost which is a very popular financial industry book.

An analyst that works with me read this book recently. I had read it when it first came out and I still had my hard cover. Anyway, it led to some internal discussions about him and I took out my copy and reread some of the passages I had highlighted. I guess the best way to maybe explain it is just give like a mini case study. This is mentioned in the book just in passing. It may be half a page or three quarters of a page on general dynamics which in 1993 went from sales got cut in half and yet the stock went up six fold. So how does that happen? How do you get a stock where the sales get cut in half and the stock goes up six fold. Well, I went and did a little research on that name and it was interesting to see.

In the early '90s, defense spending went down by about a third so there was a lot of capital leaving the industry. All the major players were losing money. General Dynamics itself made zero profit. What happens here is you have General Dynamics cutting a lot of capital expenditures. Really shrinking the business. The assets of the business went down by a billion and a half that they sold off unprofitable things. Shut down unprofitable lines. And the profit went from making basically zero dollars a share to like $4.50 a share and the stock went nuts.

So in a little snapshot you can see how that happened. You have an industry that just tanks. But, what that does is it pulls a lot of capital out. It pulls a lot of expenses out. People, the remaining survivors in that pool then tend to do well. The General Dynamics template is kind of I think the essence of the capital cycle so when you want to be interested in these industries is after they've already had this collapse and you start to see capital come out and you see cuts and people and capital expenditures and general shrinkage. That's when you really want to get interested in these cyclical names.

**Frank Curzio:** Chris, there's a lot to be said for what you were just talking about because I know you as a value guy. Yes, I know you invest in growth stocks and things like that. But for me I've always felt like you're a pure value guy and you're just looking for cheap assets you could buy that you know are going to be worth a lot more at a later date. Then you come in and you see General Dynamics which kind of throws a wrench in that, right, because you're like, wait a minute. Sales are coming down. Earnings are coming down. But yet the stock moved fivefold so you're ... because it conflicts with where you're used to, right? You ran the research to find out what happens to become a better investor.

I think a lot of people ... it's kind of like so many people stick to their strategies and when you hear people, "Well, gold's going higher. Gold's going higher," no matter what. And you hear, "The market's going higher. The market's going," and they don't change along with the facts but the fact that you're able to go learn something that you're, "Wait a minute, why did this happen," to become a better investor. There's a lot to be said for that, I think.

**Chris Mayer:** I think also it helps to have multiple arrows in your quiver. If you only have one trick sometimes you get through periods in the market cycle where it's just not really wise to do anymore. And

so if you have multiple things you can do and it expands the opportunities you can look at. So, I don't only use this and I don't only invest in cyclical names. In fact, I'm very reluctant to invest in cyclical names and I don't have very many of those type names.

But every once in a while you do look at them and you get a couple of very interesting opportunities that way. So I think to your point, yeah, you don't want to be wed necessary to just one market view or one strategy. You want to have a few different things that you can go to.

**Frank Curzio:** Now, let's use that strategy because there were a couple of sectors that you mentioned which I was surprised at, because people are like, "Oh its' technology and health care, " and I actually make a joke about it before in my intro. And you're like, "Let's talk about these two." It's cool because you always get new ideas and new things but, one of the things you mentioned was shipping. This is an industry it's kind of been out of favor which is weird if you think about from a common sense point of view, right? You're seeing our economy do very well and yes, shipping's international but you would think with goods and services and things like that maybe tariffs have hurt these guys lately. But, yeah, it continues to be out of favor and this is someplace that you're looking for value.

**Chris Mayer:** Yeah, and I think with shipping it's been out of favor for a long time. But what really put it on my radar recently was with all the tariff talk it created some panic there. The world's largest shipping company which is a company called A.P. Moller Maersk. It lost one third of its market value this year mostly on tariff talk. This is stock that had already been pummeled. I think one of the most surprising things maybe people don't appreciate about shipping is that well, I think a couple of things.

One is 80% of the world's trade goes overseas on ships. If you look at things like ... recently I looked at bulk carriers and deadweight tons and I went all the way back to I think it was 1980. And just year by year see how much was shipped. Almost every year it goes up. There was a couple of years where there was some retreat but it was marginal or maybe where it's kind of flat. But, you would be hard pressed to find any kind of recession or ... even during the '08 crisis the deadweight tons and dry bulks went up substantially. So that wasn't really the problem with shipping. It wasn't a demand side problem it was that the shipping companies ordered way,

way, way too many ships and that supply overwhelmed demand and then had day rates for those ships collapse.

Just to give you an example I have here the 2007 cost $126,000 a month for a capsize vessel and in 2016 that was down to $9000. So huge, huge drops. Obviously ... maybe it isn't obvious, but a lot of companies are not going to be able to survive that kind of a downdraft in their revenues. And so you've seen capital come out of the shipping industries. You've seen a lot increase in scraps and fleet growth has finally slowed. For years and years it was growing at 8% a year on average and now it's really dwindling. So, I think you're at an interesting inflection point with shipping.

**Frank Curzio:** Now, do you think shipping will ... could you relate it ... and this might be crazy. But, you look at the airline industry. Remember Buffet, right? He used to just say this these are death traps of if you want to lose money buy an airline things like that. But it wasn't a demand side problem. People needed to fly. You need to fly. And they figure out the business model that actually works and even today you look at these companies they're at all-time highs and they're still trading some of them below 10 times, 11 times earnings. I guess people feel like is this for real or not.

But the amount of cash flow to generating a lowering debt, could we see the same thing in shipping where they figure it out since the biggest thing, it's almost like Facebook, right? I think the biggest thing with Facebook is get all the users on one site and then figure it out instead of doing it the other way around where you have all this demand here. It's like how do we generate the most margins off of this because like you said since 1980 it's going higher and higher and higher. Why are these shipping companies going lower and lower and lower? Doesn't make sense.

**Chris Mayer:** Yeah. Well they might figure out and possibly the analogy with airlines is not terrible because what really helped turn the airlines around too is just a limited number of gates. And so finally you have airlines where they can kind of protect their routes. There are some places from city to city where you can't fly there. If an airline wanted to create a route it couldn't do it. It's just there aren't terminals. There aren't the gates, etc.

So, that helped airline cost billing in many cases. And in some extent it might happen in shipping. There are so many ports and there's so many slips and bays and all this kind of stuff may create some limitation. But, I think shipping also is interesting if you break it down a little. Shipping is a big, big topic. But certain segments of it are particularly attractive and so this takes me to look at things like say natural gas. You look in the U.S. natural gas production's up big over the last 10 years.

And if you look at LNG exports, liquefied natural gas exports that we export from the U.S. to say Asia and Europe, that has really exploded. If you were to look at a two-year chart you'd be amazed. It's gone up probably 10X. It's a huge spike up. And if you look at other things that are similar you look at propane or ethylene you would find similar huge hockey stick moves. There's demand because U.S. prices are so much cheaper. We have all this huge supply of low cost natural gas and there's a good 60% of what buyers will pay in Asia or Europe so there's this big cost advantage.

So naturally how does the market follow this? Well, you've got to ship it over there and so this is actually not really a new story. This has been ... well, I'll give you an example through a company called Navigator Holdings. It's a shipping company we like and that went public in 2013. It went public at about 19 bucks. And I have four sell side reports on that company that date from that time. And they all tell the same story that I basically just told you which is that the U.S. is going to export all this low cost stuff and how there's this big cost arbitrage and blah, blah, blah. And by 2014 the stock went up to $31 a share because people got excited about this story. It makes so much sense. It seemed like a cinch.

But of course, it took much longer to happen than people thought to get the infrastructure in place and so then the stock's just been crushed since. I think it got as low as seven. We bought some at around 11. But now it's starting to happen. So you've had a thesis that's been in place for a long time. It's not really a secret. You can see it. You can see these terminal being built if you would just search LNG terminals, export terminals, you'll see all these facilities being built to take this product that's trapped inland and you get it to the gulf so it can be transported to Europe and Asia. But it's just been very much delayed. So you're getting now you're getting that story at a much discounted price and you're much, much further along.

So that's I think where shipping can be very interesting because there's only so many ships that can carry LNG it has a very specialized ship. You can't refit a ship and make it transport LNG. You can track every vessel used to transport this stuff. You can look at the back log and there's I think a couple of ships this year that are going to come online. But I think there's no ships for the next two years and it's not something you can just turnkey and start up. So I think that if you look at that particular sector there are some constraints there and I think the shippers could make a lot of money in the next few years as this plays out.

**Frank Curzio:** Talk about LNG because I know this is something else that you like. You mentioned with Navigator here. It's funny because I covered this story for such a long time like 2008, '09, '10 and watched the Shell revolution and how they said, "It can't be used for oil," and all of a sudden it's used for oil. But, just take people back really quick because with LNG we built facilities to basically import natural gas.

And they were like, "Wait a minute. We have a lot of this stuff," and it takes massive construction to actually reverse that and say, "Okay, we're going to start exporting it." But, talk about that whole process because this has been a story for a while. Why do you like LNG now? Does it have a lot to do with pricing where natural gas prices are much higher almost every place else in the world. But, why now should we really be getting into this because I know this has been a story for a while and these things ran up and have come down. But, maybe it fits into your strategy. Capital coming out of the market it's a good time to own this.

**Chris Mayer:** Yes. Well, I think to answer that question it would take a little bit of grit and granular details. I won't go into it too much but I'd just like to give you an example. There's a large pipeline Mariner East 2 pipeline, it's going to bring on something like 275,000 barrels a day of propane, butane, ethane from the Appalachians on the East Coast which will then be exported. So if you just do the math that's going to require X number of additional vessels and so many more of these vessels for short trips, blah, blah, blah. And you work it out and you figure that there's this imminent demand for ships. And a company like Navigator actually has the most of those kinds of vessels to carry out that product.

So it's kind of getting a picture of the supply like I say, you get great detail actually with Navigator's you can go ship by ship. They tell you when it was built. How much they paid or how much it was

cost to build. What it carries. You can get that level of detail and then when you look at some of these facilities online you can do the math and figure out how many ships they're going to need. It's kind of interesting that way. There's a lot of transparency when you get down that small because again, this is just one little sliver of the shipping industry. It might be different if we were talking about dry bulk or something like that.

So that's why I think you can get interested in it now because this stuff is coming online very soon. In fact, I think there's a big export facility that's going to come online early next year. So this stuff is starting to happen now and the stocks are starting to react just a little bit. It's come off its bottom and it's basically traded reasonably well for a while now. But, it's so far off from where it could be and what it could be worth. Like I said, it hit $30 a share back in 2014 basically on the excitement of the same story. But, it didn't play out that way. It took longer and now they have more ships than they did then.

That's the other thing that's interesting. This is one of the things that I love to look at. When you have a company sometimes it goes public and then it's a dog for four or five years afterwards and people look at it and they tend to think of it as kind of like a bad investment. But if you ignore the stock price and you just look at the company, you can see they've actually done pretty well. Like in Navigator's case for example, you look at book value per share since they ... [inaudible 00:43:35] over the last 10 years it's up maybe 70 or 80% in book value per share so they've been bumping along doing okay.

But the difference is that the price the market wants to pay for that book value has declined. In 2013, the market value of the company had over three times book and today it's valued at 70% of book. So you see the crazy extremes and if you just get a rebound to something like a slight premium you'd make a lot of money on something like this. So that's kind of the thinking behind it.

**Frank Curzio:** I've been talking to Chris Mayer. I want to go into two more topics with you really quick because I love these conversations. I could talk to you for hours actually but we are limited. I wanted to talk to you about the banks which I always mention because you're a former bank analyst. You know more about this industry than so many other people. When I saw the stress test come out and I really dug into the banks and I'm very familiar with this industry,

I came to realize and I actually said this publicly and I got a lot of backlash for this, but I said, guys, because we're always worried about another 2008-type crisis. Sometimes we don't realize how rare it is when the last time that happened was the Great Depression.

When I started analyzing these banks I actually said, guys, look if you're worried about another credit crisis, it's probably not going to happen in your lifetime. That doesn't mean that we can't see the market come down 10-20%, right? Because if we didn't have ... it wasn't really like the CDOs. It wasn't so much the subprime it was the amount of leverage that was in the market where you only needed a small decline in housing to really disrupt the whole entire system where it almost resulted in the end of Western Civilization if we didn't come out with a bailout.

But now with Dodd-Frank and how much capital these guys have to keep on their books to withstand a 35% market pullback when there's a 10% unemployment, a fall of more than 5% GDP and a 30% decline in home prices. We didn't even see that during the credit crisis and the fact that they would leverage over 30 to 1, it may have been up 40 to 1 in pretty much six to nine months leading up to the bankruptcy and now it's 10 to 1 and then being monitored all the time. We agree on a lot of stuff so feel free to go off on me if you want. But for me I could see the market coming down but not to the point where runs on the banks and stuff like that can happen.

What do you think as someone that's an insider in this industry?

**Chris Mayer:** Yeah, the way I think about it too is we always reflectively think back to 2008 and well, because it was such a dramatic experience. I can't help but sometimes think '08. But you're right. I think the way ... you might not have an overall credit crisis like that depth but you'll have pockets of problems. That's the way it's been with banking for years. They get into trouble in those pockets here and there when something happens. You have maybe subprime auto will be a problem for some banks. Will it take down the system? No. Will it lead to bankruptcies in banks? No. Will it maybe lead to some banks taking some hits? Probably, some.

But, I think that you're right. I think since the crisis the banks are much better capitalized and they're still ... I don't know and I won't say cautious. It's hard to generalize sometimes because you

see some of the smaller banks are still generally pretty cautious and are just doing plain vanilla things. It's much tougher to get a mortgage generally than it was 10 years ago. So there's not that particular problem.

Yeah, we have for example a bank called CIT Group. I think that's one of the cheaper large banks around still. You can get it for slight premium of book value and it's very well capitalized. It sold ... it used to have an aircraft leasing division which it sold and it's slimming down and it's ... I think it's a good bet here. It's got a CEO Ellen Alemany who came out of retirement to run it. She's done a good job fixing it up and they have targets for a return on equity and if they hit those and get something of valuation more in line with Peers you can have a 40-50% uplift in the valuation just from today's numbers. So-

**Chris Mayer:** ... did an evaluation just from today's numbers. So I still think there are interesting opportunities in banks. So that's how I would frame that.

**Frank Curzio:** Okay. Last thing here, because you work directly with Bill Bonner, you mentioned his name earlier, Bonner and Partners. You talk to him all the time. When it comes to the portfolio since both of you guys run that post, do you ever actually take advice from him or do you just tell him "Hey bud, back up I got this." I'm joking of course. Those of you that know it, Bill Bonner is a [inaudible 00:48:33] the biggest financial news [inaudible 00:48:35] in the world. If I had to use a football analogy I'd say he's like the Robert Kraft, who's on the New England Patriots.

A newsletter business in terms of building one of the greatest franchises in the industry. But when you work side by side you have such a good relationship. I'm curious to know the behind the scenes, is it like "Hey let me sign off.." does he come up with ideas or.. because knowing you as a stock analyst and your picks, you have an amazing track record. I'm just curious to see the behind the scenes of that. I'm sure a lot of other people are as well.

**Chris Mayer:** Yeah. I mean I've talked to him before about different stuff and positions and things like that. He's never come to me and said "Here's an idea I think we should do." Or anything like that. He's pretty hands off, and just lets me run with it. So what we do talk about when we get together.. We'll talk about more macro and things that are going on and he always lots of opinions about that.

Nothing that anyone who reads his stuff would be any surprise.

But yeah I guess I don't really have too much to say about that because there's really.. He doesn't ever say "Do this or don't do that." He just lets me go where I think.. I mean he buys into the overall philosophy. So I think that he likes the way I invest. I invest is if I was a business person looking to buy that whole business, and I focus on things like the incentives of the people involved. The ownership, who's got control. It's very much a private investment sort of mentality. It sort of grows out of my experience too from banking and working with private businesses and valuing them back then. I just take that same approach and apply it to public markets.

So I think he trusts that approach, it's the way he thinks about them. We were both very skeptical about the market. We always say the stock market is a market of second hand goods and the only reason you're able to buy out your share of a company is because the original owner didn't want it. So why is that? Of course it's a generalization and it's not.. Some businesses are very much worth owning in the original ownership still has a substantial stake, with their families or with their management teams. Even activists, investors will ride coat tails of them. I like getting involved in some of the situations where activists have a big block of stock in there making some things happen, whether they're divestitures or stuff like that.

So I think Bill buys into that general approach and he's also.. We're of the same mind of general skepticism about what people can know. So we don't pretend to know things we can't know. We're skeptical about whether people claim to know. It seems to work out, pretty good partnership so far.

**Frank Curzio:** Yeah that's cool and I appreciate you sharing that. Because a lot of people ask me "How's it to work with Kramer behind the scenes?" And stuff like that. They just like that from a story perspective. Even I'm interested in it because Bill Bonner is a great guy. He's the leader in this industry. Just working side by side, that's got to be really cool for you. Alright last thing I promise you, because I love talking to you and it's been a while, is you shed some ideas, is there anything else from your sector? Another idea or anything? You did share plenty of ideas. You shared at least three or four of them I believe.

But is there any maybe sector that you're looking at, or individual stocks that you say "Hey you know what, these look pretty cool right now. I'm buying into." Or anything you could share because that's what people love from you because you set the bar so high. You always give us stocks that people really never heard of. They love that from you.

**Chris Mayer:** Well let's see. I mentioned MAERSK before, that's one that we have. What's interesting about that is they've just recently.. We bought it before this announcement. They announced they're going to spin off some of their oil related assets. So what's interesting about MAERSK is that they have something like 15 billion dollars in capital coming back to them. They're selling. They have a big stake in [inaudible 00:52:35] oil, they're selling that. They're selling a bunch of things so when it's all said and done they're going to have more cash than debt. And they'll probably.. In the past what they've done is they've done special dividends. And they do buybacks, all kinds of good things capped in this situation.

Just recently announced a spinoff of those assets. So I think that's an interesting play. Again you're getting something somewhere around the bottom of the cycle and you're going to get a free spin off in there which could be interesting. As far as other sectors go, like I say it's kind of eclectic. We are finding some interesting things in Europe. For example, and some of these are easy to buy, one that comes to mind is Telecom Italia, which trades under your stock exchange.

Telecom Italia is interesting because you have two billionaires basically fighting over it. It's some bull array as a French industrialist and he has a good-sized stake in Telecom Italia and then Paul Finger and Elliott came in after him and bought a pretty large stake. They both have competing plans for what they want to do with the company, whether they want to spin off their wildest assets, do this or that. But you can buyout stuff today for well under what both of those guys paid and neither of them are dummies. Both of them have excellent long term track records.

So I really like Telecom Italia. Stock is super cheap, just the numbers anyway, because all the stuff going on in Italy. But behind the scenes I think.. That's another name I think will change things here.

**Frank Curzio:** So, Chris if someone wants to find some more information from

you how could they do it? I know you're writing a newsletter and doing lots of things out there. You speak at conferences, you travel the world. People love to follow you, and again they love your opinion. But how can they find out more information if they want to learn more about you?

**Chris Mayer:** Sure. You can google Bonner and Partners. That's the poster of my newsletters. Bonnerandpartners.com. You could also follow me on Twitter. The handle is @chriswmayer, and I post some interesting things there, research and other ideas I come across.

**Frank Curzio:** Alright Chris. So you know, we'll leave it there and.. Look I usually try to keep these in 20 maybe 25 minutes and this probably went to 35 minutes only because I love talking to you and getting your ideas. I really appreciate you coming on. I know how busy you are. But I also just really respect you and I know we're asking a lot. Hopefully you continue to come on because I love your picks, and I love you. So I really appreciate it bud.

**Chris Mayer:** Well great Frank, sure. I always love talking to you as well. We have interesting conversations. Happy to be on, thanks for having me.

**Frank Curzio:** Alright guys. Great stuff from Chris. Awesome ideas as always. Take one of those from [inaudible 00:55:21] More important, I opened up with the *All-Star Portfolio* Chris is the third analyst probably in the last three months that talked about shipping. Another thing you could track, which is interesting. How many people have talked about shipping? But three different analysts, experts, are now talking about getting into shipping. An industry no one's really talking about. When I was talking about getting into department store retailers October-November, and now everybody's in them when they're probably 50-60-70% higher because they're breaking out even more now. A lot of rotation into that, which is probably going to stop.

If you're with retailers right now I'd definitely take profits, and some of them are up tremendously. There has been rotation, this is stuff that I track through a lot of the research engines I use, Goldman Sacks, JP Morgan, stuff like that. But you see rotation out of tech and one of those rotations are into retail right now. I think that's going to switch back, I think this is a short term trend because they've gone up so much. You might see that rotation, maybe into some shipping stocks or things like that. But I'd probably be taking profits right now. A lot of retailers, since

everyone in the world all of a sudden is bullish, which is normal when they're at the top, nobody likes them at the bottom.

That's why [inaudible 00:56:24] we have people coming on telling you to buy things that everybody hates. It's not exciting, nobody's going to talk about it, but that's how you make the most money. Buying these depressed sectors so out of favor where your risk is limited, and just a slight positive is going to send these things up tremendously like we saw in retail.

But buying things that are out of favor is not marketable, so you're not going to see a lot of guys on TV talk about this. But you're going to see things like that on this podcast with three guys. Three people. Three of the analysts, pretty much the last three months have recommended shipping which is kind of interesting.

Anyway, let's move on to my educational segment. It has to do with biotech stocks. I've been talking about biotech stocks lately because I've been finding a lot of value. A lot of these names have gotten smoked, and have been going over strategies and you know, FDA approved.. It's a good time to really buy these things when they get crushed sometimes or they're going into phase two studies or phase three studies and they disappoint. You'll see investors just run to the exits, even though they don't analyze the data. One of the things they could look at, again I talked about this the past couple weeks, is they'll look at the data and say "well we want a little bit more information on this." And they have to submit it like six months later. You'll see a stock drop 50-60% sometimes these things fall below cash.

You get in that pipeline for free. It's great as long as you're really analyzing the reason why that stock fell 50% and if they're going to discontinue that drug, don't bother looking at it anymore. Look at something else, you're better off. They're getting rid of that platform. But if it's something really small that they just have to get right and test more people, and it's only going to take six months, it's a way to really generate massive returns. That's one strategy. This strategy is different. And I wanted to mention it to you because it's exciting and you see it more often than not.

It's when biotech stocks crash. They crash after they receive FDA approval on a signature drug. Most of the time, a lot of times you see this. Human [inaudible 00:58:31] early in their career. Earlier when emphasis starts that's 2001-2002. Cancer drug got approved,

you see the ups and downs. It's kind of amazing. This happens really with small cap buyouts at companies when maybe their first drug gets approved by the FDA. And we see the phase three data and it's positive. This is when these things really start running up because once you're past phase three it's just an amount of time before you get FDA approval. And when you get FDA approval what happens?

You have all of these analysts come out. They have inflated target prices. It sucks, [inaudible 00:59:05]through the roof, and now.. because you're a real company, right? You're going to generate sales, and they say the sales are going to be x amount first year, second year they're usually really inflated. Again you could understand why they're so inflated, because [inaudible 00:59:19] the investment firms. If you look at it they're incentivized to provide positive research, or positive forecasts out of small cap biotech companies and most companies I guess. But especially if they receive FDA approval.

Because these are companies that are going to have to raise tons of money to buy facilities, hire new employees, delivery systems, sales agents. What are they going to do? Well they're going to go to the investment banks and I could tell you the investment banks that have a negative opinion and think your stock is to sell.. That's not the guy I'm going to go to and say "Hey, I'll pay you some investment fees, you want to raise money for us?" No. You're going to go to the guys with the most optimistic reports.

A lot of these come out right after they get FDA approval. Because now you're stamped with approval, now this drug is going to be sold in the market. Everything else is just kind of these discounted cash flow models, probably by 2027 they're going to generate.. Now with FDA approval everything changes. Because you know what happens to these companies? They have to change their business model. They have to. If you look through drug discovery, that whole process, it's a big process. Again, pre-discovery then you have drug discovery where they have a bunch of compounds, throwing them and see which sticks. Then they have pre-clinical, they're testing on animals. Then they go to clinical trials which you guys are probably familiar with the most, that's phase one, phase two, phase three.

In phase one you have to have 20-80 people in there. It's not that long basically. It's all about time and to study participants basically.

So phase one trials is 20-80 people test over several months. Phase two is more like several hundred people tested over two years. Then if that's positive phase three requires more than a thousand people tested over several years and once you get that phase three approval, boom. That's why when you look at the drug process it takes twelve years. Drugs come off patent after 20 years but it takes an average of 12-13 years to get the drug to market, and it costs at least a billion and a half on average, right?

There's lots of studies, some of them even higher than two billion because of all these studies before you even get to sell that drug. And when you do, you only have a few years to sell it before generics copycat it. It's a crazy industry. That's why they raise prices significantly going into the last few years, because that patent comes with an expiration. Every drug company does this. But the phase that people really don't talk about is the one after phase three. Again the FDA review period, during this stage the company must submit something called a new drug application. Stay with me here, this is very important, especially if you invest in biotech stocks.

So basically you're highlighting all this, putting all of the data of everything in your report, you're submitting it to the FDA, and then they approve it. Most of the time it'll go to a six to ten person panel, they approve it, get a phase three [inaudible 01:02:08] approved. Then what happens, because this is a strategy here, it's called the post marketing stage. This is called phase four. Nobody really talks about phase four. "Phase four? What does Phase four mean? Phase three I'm used to, phase two. Phase four?"

Phase four is post marketing. It's the most critical phase for investors. This is the phase you should care about the most. Because with a small cap biotech company, they have to change their business model. Most of them fail miserably when they do this. Miserably. And their stocks get destroyed. Because in the first phases and all that stuff I just talked about, biotech companies are all about research, testing, doctors, scientists usually run the show. They try to make sure that signature drug is safe and effective for patients and get it past phase three.

Once a drug passes that test, you get FDA approval, it's a whole new ballgame. [inaudible 01:02:59] needs to find facilities to manufacture the drug in mass now. They find a delivery service to transport the drug to the end use, whatever it is. Higher

advertising agencies, they need a background healthcare. You see the healthcare commercials now, right? It's a minute commercial, fifteen seconds is on the drug, and then 45 seconds is on the risks of you know.. If you're driving a car, or suicide, or this, you gamble. Everything that could possibly be put in there. As long as they say it, they can't get in trouble for it so you might as well say a billion things that.. All these risks. As long as it's mentioned there and disclosed.

Again that's our business. "Oh you have to disclose it! I told you if you drive a car about fifty miles an hour near a cliff you might just jump off the cliff or pass out or whatever. It's right there, you did it so now you can't sue us." It's crazy, as long as you disclose it. You have to hire hundreds of employees, sales agents, to help sell the drug. Remember, right after the FDA approval there's still no money coming in for a couple of months. So you start producing it right? You have to cover massive costs. That's where comes in the investment firms and providing these inflated forecasts.

They know you're going to have to raise money to hire those new employees, buy the facilities, marketing, manufacturing a drug. More important companies then, this is doctors and scientists they don't know this, then meet with insurance companies to see if their drugs are going to be covered under certain healthcare plans. If the insurer refused to cover the drug patients are going to have to pay out of pocket and that's a massive sales risk. Especially if the drug is super expensive, they're not going to buy it. Even if insurance cover it management needs to know and get familiar with the reimbursement process. It's crucial for public companies to report sales, earnings, every quarter now because you're a real company. And as you know delays in these payments result in a big sales miss and what happens? It destroys the stock, especially early on. Because it provides uncertainty.

Investors are going to question, "Hey, these delays, are they temporary? Is it caused by insurers? What if our stocks go through this?" There's a stock that was up 45% for us came all the way back down 30%, now it's up 50-60%. It's an awesome company but this is the process. This is one of the risks that we had to deal with. So I'm telling you these lessons, these things that I've learned from. Not because I'm so genius, this is real life stuff.

The company's fantastic but those payments from insurers weren't coming in quick enough and people started doubting and saying

"Wait a minute, are they covering it?" They were but they just.. The payments came later than expected because they're a new company. Again those investors are going to say "Is it temporary or is this long term?" Doctors may not be prescribing that drug to as many patients as expected, now you're going to see the stock fall out of bed.

So I think you get the point, at least you should get the point now. I didn't mean to go through it so much, go over the details, but it's important because there's so many companies. Human Genome was a company that made a fortune on it, their lupus drug got approved. The first drug for lupus, it was like 33,000. It fell to 8. It fell to 8. It was trading not too far from cash to cash balance sheet, plus they had a decent pipeline. GLAC's already got a 25% stake in the company I think, and I said "Why wouldn't GLAC just go out and purchase this stock for $10-$11?"

Three weeks later they actually did that. It was one of the best calls I ever had. Lucky with the timing, the stock I looked at for a while, I liked it pretty much 10-11 fell down to eight. I was like "I've got to recommend this thing, it's a joke." They actually have an FDA approved drug where this stock was trading in the 20s without an FDA approval. Now it's $8 with an FDA approval, and you're generating sales. If you look back at all the companies, if you look back at some of the biggest drugs.. I tested a lot of research on this, from where they got FDA approval, you look at a drug. Avastin, Keytruda, Avastin Genentech, Keytruda immunotherapy drug. Merk. Talk about Rituximab, Humira, biggest drug in the world. That first year of sales in 2002 were $250 million, disappointing. That's disappointing. [inaudible 01:07:07] a big company.

Now they're $18 billion they generated last year. But the first year out of the gate, even these drugs with these big companies, the first year of sales almost always disappoint. When I say disappoint, they fall well short of analysts giving you an opportunity because what happens? These stocks crash after their approval and you get to buy it for dirt cheap, cheaper than when they didn't even have FDA approval. If you're a *Curzio Venture* subscriber you're getting an amazing pick, a stock that was $80 that's now $20, and it was $80 before the FDA approved their drug. Now they approved their drug, it fell all the way down to $20, you're getting the pipeline for free. Trading around $20, $6 a share in cash.

It's kind of amazing. They had their pipeline.. It took you four drugs and phase two, phase three studies. It's incredible. But this is what you want to look at. You need to find out, I love to have all these biotech stocks [inaudible 01:08:01] they can destroy. Because when they get destroyed dig in and see why, because investors don't. Most don't. The funds or whatever, they run to the exits giving you an opportunity to buy these things dirt cheap, and I'm telling you. With you at new link, we should no longer.. [inaudible 01:08:15] advisory portfolio would recommend that stock went up 180% in like a couple of months.

A stock fell out of bed from 50, tremendously, it was like seven or eight. Came out, went right to 18, we sold half, it came back down again. Sold the rest, we're out of position for like 150% gain but 180% in a few weeks. It's kind of amazing. We've done this before. It wasn't luck. We did it with Human Genome, we've down it with other picks as well. But try to keep biotech on your radar, because a lot of these names get destroyed. And if you look at the reason why they get destroyed a lot of times that's temporary. I guess investors just run to the exits without asking questions that creates an amazing buying opportunity for you. Maybe you want to also see some insider buying as well, which I'm seeing in the stock that we recommended to *Curzio Venture Opportunities*, tremendous opportunities.

So, hopefully that educational segment was not too long. I'm trying to help you guys out to be better investors and I do like biotech right now, I think it's a fantastic sector, and the last two picks in my *Curzio Venture Opportunities* were biotech. [inaudible 01:09:15] I think it's something like 15-20% already. Good sector, start looking for stock nobody's talking about, out of favor, a lot of cheap names that I'm finding. Anyway guys, lots to digest. Lots of ideas, lots of stuff going on, really great stuff. But that's it for me. Thank you so much for listening, really appreciate it. I'll see you guys in seven days, take care.

**Announcer:** The information presented on Wall Street Unplugged is the opinion of its hosts and guests. You should not base your investment decisions solely on this podcast. Remember, it's your money and your responsibility. Wall Street Unplugged, produced by the Choose Yourself podcast network, the leader in podcasts produced to help you choose yourself.