THE MIKE ALKIN SHOW

TALKING STOCKS OVER A BEER

Announcer: Free and clear of the chatter from Wall Street, you're listening to Talking Stocks Over a Beer, hosted by hedge fund veteran and newsletter writer, Mike Alkin who helps ordinary investors level the playing field against the pros by bringing you market insights and interviews with corporate executives and institutional investors.

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

Mike Alkin: It's Monday, November 12th, 2018. Welcome to the podcast. Hope you had a good weekend, mind was spent being Sherpa dad, the suburban Sherpa that I am. I always joke and I spend the weekend, I'm sure as many of your do shuffling kids around town from one place to the next, going to pick up things whether it's somebody forgot something, somebody needs something dropped off, and driving around and I realized how much time you actually spend in the car just doing those. Yeah, I love it, I love taking the kids wherever they gotta go and I'm happy at any time but I was joking with my wife the other night and I said, "On any given evening I could be at three or four separate occasions, just ... " Which is good actually because I never drink beer or wine anymore. I didn't drink a lot but I'm certainly not gonna have a beer or wine if I know that I'm on call to go pick up the kids somewhere, so that's good. I don't have to have that extra beer or extra calories or so from that.

Aside that, so last week I was talking about the Islanders and how I was excited they reeled off five in a row and they hadn't won the cup since 84 and yada yada, and I got blasted on Twitter in good nature, people saying, "You're out of your mind." So not too long after I did the podcast I'm on my spin bike at home and I'm watching the NHL network while I'm writing and they come up and they say, "Are the Islanders for real?" They do an episode and everyone's like [inaudible 00:02:31]. I'm like, "Yeah I get that." And they've lost three in a row.

But this is a pattern with me when it comes to, and you've heard me say New York professional sports teams. It's misery. It is ...

It's absolute misery. Back in April I waited. The Mets were 11 N O. 11 N O. And I waited and I waited 'cause being a Met fan you know you're gonna be disappointed and I came out on a podcast and I said, "Folks, the Mets look like they're real." And they finished like with the second or third worse record in the national league. They were a disaster and same thing with football and I, you know I'm a Jets fan. Jets won the Super Bowl 1969. We still hold on to our Joe Namath memories for those of you who remember Joe Namath, Broadway Joe, Joe Willy White-Shoes. He's a legend around here. Still, 'cause we've had nothing in 50 years to talk about, I keep a signed autographed football of him in my office and when people come in they're like, "Wow, Joe Namath."

It's been that long since we've had something to talk about, but they directed Sam Darnold and he came out and he had a monster night on Monday night football and I came out and I said, "Okay," And then the season we're in they dusted my jet skier, you know my sweatshirt, my fleece, got the hat ... They lost to what was the worst team in football yesterday. 41 seven I think it was, I turned it off. The Buffalo Bills ran over, the Buffalo Bills look like the Patriots running at full tilt, I mean it was an unmitigated disaster.

It's crazy, so I sent a group text to my buddies that on this day, the 11th of November, 2018 I am officially divorcing the New York Jets. I am a man in search of an NFL football team and hell I might go CFL. I can't do it anymore. I just cannot do it. You try, they tease you and then they pull off an unmitigated disaster like that. So Islanders, Jets, Mets you've heard me talk about it, I'm sure you fast forward through this but for me this is therapeutic as a New York professional sports fan, this is my therapy now that I've done 36 podcasts I realize that I can about it for five minutes, I feel better. Okay, there you go, I feel better.

So interesting week. Last week I talked on the podcast about midterm elections coming up and who knew what would happen, but the market just wants to know something, and we got the split. It produced a split Congress here in the US. The democrats took control of the House, the republicans retained control in the Senate, and you know, really the market was thinking, "Okay, here we go, we have a newly divided Congress." Probably preserve some market friendly policies, namely to tax cut and dereg efforts, but, you know the market also kind of looks back right, and says, "Okay, how'd it do in prior years?" And it's done well with the republican president and split Congress, right, so hey when you're ten years into a bull market, the market's looking ...

Let's reach, let's look, let's go back and find examples, and the SMP was up a couple percent I think in the week. The NASACT was up almost three in the rustle, the broader index was up a little bit but later in the week I think it was Thursday the fed came out and they said, you know their policy statement and they didn't raise rates, the fed funds they kept 'em unchanged but that was kind of expected. They did note that you're gonna see further rate hikes which happens with economic growth, you've got the pretty good labor law pretty good, you've got a really strong labor market. Inflations inching up near its two-year, two percent target rate over the medium term.

But what was interesting, and I think the market wanted to see it, was the fed, it's what they didn't say. They didn't talk about the October market sell off. They didn't talk about US China trade developments in the policy statements, right, so if you were trying to read between the lines what you might take away from that is they're still gonna raise rates, right, and so again, here we are, the market typically doesn't like rising rates. So that wasn't met with great fanfare. But we'll see where it goes from here and hey, you've heard me say it I'm not gonna get into it again over and over and over again just, I think now's the time to be cautious.

So when it comes to that, and if you take all that stuff aside, you know I think if you are a new listener you don't know this, but if you're an existing listener you know that I like to toil in the underbelly of the market on the long side. I like to focus on things that are down and out, things that have been left for dead, thins where there's not a lot of eyeballs on it, rather than playing this game, right, what was the fed thinking? What is, what's the market thinking? What's going to happen, what ... How can the overall market, right, if I'm involved in a lot of the names in the overall market, what's looking for more secular type names?

I don't. I personally like names that have been shot. In there you'll once in a while find value and I think you do find value because you ... It's very difficult to get investment edge, if you will, and informational edge when something's popular, when somebody's focused on it, when a lot of eyeballs are on it, on the margin a lot of that gets priced and you know how people say the market is pretty efficient? Well, it's not totally efficient. Thank God. But there are for more mainstream stuff there is.

I've brought you guests that are ... I like to bring guests that don't think mainstream names. Neil Wiener comes ... Wiener comes to mind, a friend of mine who I had on a few weeks ago with, who

is a, he's focused more on distressed investments, right? So I like to look in the underbelly and things that are not doing well, and so that's where I look when I'm looking for my information. I'm not reading the, I couldn't really tell you, I know a Google and Facebook and Amazon do and I read a few things here and there but that's about it.

Same thing with mainstream names, if I'm somewhere talking to some friends who are not in the business and they wanna talk about something that's pretty mainstream, my views, like anyone else's probably, so I don't participate in the market, if you will, I take my investing skillset and put it into things that are away from the market but are typically publicly traded equities.

One of the platforms that I think is interesting, I mean I read all sorts of funky stuff, you know I'm not reading mainstream financial press that glance at the headlines but it's the same, they're all the same, right? One I guess one looks at the other and it's whatever is popular gets picked up there. I don't watch the tv programs during the day, you've heard me say that before. I don't watch the experts sit around on a day on a one hour program talking about what's hot, what's not, what's gonna work, what's not gonna work. I don't watch a program where somebody stands up there and has rounds where people call in and they have an opinion on every name and they know it and … No thank you.

So I read a lot of geo political stuff, I read a lot of foreign policy stuff, lot of natural resource stuff and you've heard me say before if you're a listener that I like to resource base because extreme highs and lows, supply and demand and human nature in psychology takes over and I love the psychological aspect of investing. There's a school of investing thought called behavioral finance. 'Cause the market is made up. Investing is made up of buyers and sellers who are human beings, no yes I know there's quants and computers and that's made it harder and harder and harder, right, 'cause they work off of algorithms, but they're not focusing on the things that are dead and buried, that are left for dead, that are on the trash pile. They're catch those when they're working, right? Those algos will pick up those momentum signals that's going on. So I like to kind of find them when they're not, but often times in these deeply deeply cyclical industries you kind of just forget about them or you lose faith in them if they're down and out. But as long as they serve something, they extract something from the ground that sales into a market that needs it, it's a supply and demand business and it kind of comes down to fourth grade math. You may have heard me talk about that before.

It's one of the things I like about that the uranium mining industry and the nuclear power industry which has been admired in Israeli long market, but at the end of the day if you could capture all your sources of supply, all your sources of demand, and people, not a lot of people are looking at it or focusing on it or disbelieving of it because it's been so long and they may have heard this story before, right? They may have heard this story when it was more mainstream, when somethings been really working for a long time, they get a lot of self-signed analyst following it, a lot of institutional ownership following something. Then it disappoints, and when it disappoints people are somewhat defensive of those positions that they own and their stances, right?

There's that public bias, so they are, they'll come out and defend and they'll defend and then all the sudden as time wears on and it becomes more obvious that work needs to be done if it's along, let’s say, and there's too much supply, and as time grinds on people's patience wane and they wane and then some have averaged down and averaged down but then some, you just get to a point sometimes where you say, "No mas, I can't do this anymore. I'm out. "

Then it takes time, right, it takes supplier discipline when you're looking at an industry that's deeply cyclical. It takes the suppliers to feel pain to feel profits evaporate to catch the ire of shareholders. Then what they're producing, what they're extracting from the ground, what they're making, they need to make less of. You need to try and bring a market into balance at least if there's too much of something and because your goal is to take out supply from the market, so the customers who need it are going to have to pay more, right? It's just so simple, the concept. Then you have to look at how much inventory is sitting out there, right, so if I have supply and demand and I cut supply, well how much inventory could I draw down? But when markets are in deep, deep bare markets, it's easy to look at that, a number like that, and say, "Well, God, look at that number."

If a lot of people are, it's big, if a lot of people aren't paying attention to it, it's pretty easy, then it's exciting, you can go dissect that and say, "Is there anything here that's being taken for granted? Is this number, is this inventory number that everyone uses as its benchmark, as the number they bandy about, how's it composed, what's comprised of?" You'd be surprised how, at times, it's much different than that. We see that in the nuclear fuel and uranium industry. At least, I believe so now, and again, I'm not gonna get into the whole, I talk enough about that, but that's

the world of investing that I like.

So if you're a podcast listener, and by the way, it's much less popular, so and I don't do the podcast for popularity to get listeners, if you listen, if you stumbled upon this now that's kind of what I do, if you're a regular listener and you've been able to survive my ridiculous sports rants in the openings you might have an interest in natural resources.

So I don't listen to the mainstream, I kind of go off on my own, I kind of do my own little thing, I kind of like the desolate world that that is, and I look at different stuff. One of the things I do is Twitter. I'm on Twitter and I wasn't for, I joined in 09, but I'd never used it 'til a maybe year and almost two years now, I started posting a few things on uranium and I'm @footnotesfirst is my, they call it my handle, I don't even know what it is. Over time I've become much more of an observer than poster, I don't post about individual companies, I post about my views. Pretty typically either on nuclear power, uranium or tesla. That's my ... What's you hobby? Tesla.

I do, I learned how to extract really great value from the platform that twitfin, fintwit, finance Twitter, there's some really really smart people on there and I love the fact that you don't have to know who they are. Many, my name's out there, it's Mike at footnotesfirst, but many people choose not to put their name on there. Some do it because they're actually just nasty, miserable sons of bitches who like to go after people and troll people and say really miserable things, and don't have the balls to put their name out there, and that's one thing. But that's a smaller portion of it. Then there's other people who choose not to do it just 'cause they wanna remain anonymous and they just wanna post or maybe their job doesn't allow them to, but one of the things as a professional investor I could pretty much tell in one tweet if somebody is learned or not about investing if they understand the business and game of investing and so a lot of times people will tweet and they'll talk and then there's different types of people like that, right?

So there's those who maybe amateurs and do it yourself investors who bring biases, they bring anger, they bring frustration, they bring rants, but they may have something really interesting to say, you could tell that they just kind of understand investing. There are those who are do it yourself investors that don't come with the rants, don't come with the anger, but you read their stuff and you can tell, okay they're good thinkers, right?

If you know my background and if you've heard the podcast before you probably know I'm not a Harvard or a Wharton educated MBA. That's not my educational background. I started out at a big university and I didn't finish there and I wound up finishing at a local commuter college in Long Island, New York. The last thing I ever thought was I was gonna be a hedge fund guy 20 something years ago. I had no idea. I was not groomed for it, I didn't aspire to it, it just kind of happened. Along the way, so I came into a world that was loaded with folks from the most premiere schools in the world, the best educations in the world, many of them decided that that's what they were gonna do from the time they were 12 years old and with their first paper route, their first money they went out and bought a stock. I didn't know what a stock was probably 'til I was in my 20s. That's fantastic, some brilliant, brilliant people.

But what I've learned over the last got, for over three decades, 20 something years, is that doesn't matter. Most of this stuff is basic math. I mean some finance concepts you gotta learn on pealing apart a balance sheet and cash flow statement you gotta understand some basic accounting, but common sense, doing I always say fourth grade math, add, subtract, multiply, divide, understanding causal relationships, understanding supply and demand, understanding human nature, those things are really what make I think a good investor and having a big set of cojones help too and having gut instincts, right, so there's ways around it.

You don't need to have been a professional investor that went to a top notch school if you did, that's great and you may be a fabulous investor, but it's not a prerequisite. It may be a prerequisite to get into a preeminent hedge fund or investment bank. My story's I wound up at a couple of them but I didn't start there and I had some good fortune and really worked 90, 100 hours a week for a long time once I got in to prove my worth. But I find the Twitter platform very fascinating where you can meet some extremely smart people who don't do it for a living, who don't bring maybe professional biases to it, and some might, you know who they are and others you don't and one of them is, I'm gonna bring-

Mike Alkin: Others you don't, and one of them is... I'm going to bring a guest on today who I read and I think is an interesting guy. I didn't know anything really about him and I saw his commentary on the nuclear space in the uranium world and I thought it was pretty darn interesting. I thought I wanted to share that with you. Here is somebody who doesn't do it for a living. He's caught my attention. I think it's very, very bright. I think has some really good things to add to the conversation about different topics.

So, I said you know what, let me bring him on the podcast. I think it might be interesting for people to hear because people say "what do you read? What do you read?" I read a lot of different things. "Well, where do you get your ideas?" I get them a lot of different places.

We're going to take this interview and talk with Hammer Investing. He's at Hammer Investing and we're going to bring him on and we're going to talk to him about it. I think it's really going to be an interesting conversation.

Jacob Leedgaard, welcome to the podcast.

Jacob Leedgaard: Thanks for having me on Mike. I appreciate it.

Mike Alkin: That's great. We've had plenty of exchanges on private messages on Twitter, but this is our first time actually speaking. It's a pleasure to speak.

Jacob Leedgaard: Yeah. It's a pleasure to me, too. Been looking forward to it.

Mike Alkin: You know I was telling the listeners before you came on just now that I was, I get asked a lot, what do you read? What do you listen to? What do you pay attention to? I said, well it's certainly not the mainstream stuff. I mean, I read headlines, just so I don't live under a rock and I know what's going on, but really for me it's about finding asymmetry and looking for things left for dead. I tend to find those in deeply cyclical industries. I've always found that that's where you can find some fascinating ideas. A lot of it has to do with human nature, and one of the things I was talking about one of the platforms I use is Twitter, and I like to look for smart people and I love.. If they don't have their name out there, and you don't know who they are but you can tell pretty quickly, I can tell pretty quickly if they're thoughtful, if they're bringing an investor's mind to it.

I started following you many many months ago because of uranium. I have a firm that focuses on nothing but uranium investing and the nuclear fuel cycle. I saw your stuff and we started to interact back and forth a little bit and I reached out to you. You had posted something a week or two ago and I reached out. We were going back and forth and you told me your background. I said, "My God, you have to come on the podcast. This is great stuff."

Why don't you share with listeners who you are, what you do and how you got here.

Jacob Leedgaard: Well, thanks Mike. I got involved with investing at quite a late age, at the age of 35 in 2006. By that time, I had been a poker pro for one year. Things were going quite well. I was making decent progress and decent money and I though, okay how can I protect this and perhaps even grow it?

Back then I actually think I was more focused on taking risk than protecting. Now I've scaled it. I've learned my lesson and, you know, you get your head handed to you sometimes. [crosstalk 00:26:06]

Mike Alkin: There's no greater teacher, right, than loss.

Jacob Leedgaard: Yeah, and I experienced that a lot in poker, too. You go on a hot streak and you think you're a gift to the game, you know, a god to the game almost sometimes. Then you come crashing down just a few weeks later. You learn humbleness from the game as you do in investing. What I found to be really important is you need self-control in the market, not to let your emotions be swayed by the market.

If you read the news, then at the top of the market is euphoric and everybody wants to get in on it because their neighbor made a lot of money. So, they want it, too. The same when it goes down and the headlines are screaming with big type how the world is falling apart and people want to hit their sell button. I do, too. I think it's very normal to want to get out in those situations, and in when everybody says to go in.

After a while you learn that you should do the opposite and, actually, almost not trust your gut instinct and definitely not the headlines.

Mike Alkin: It's fascinating. You know I talk to you, and on Twitter when, about a year and a half ago, I think, I presented, I gave a couple of public talks on uranium. I guess that attracted these people who follow me on Twitter and there is a handful of guys who are, every time... I said you have to have patience and long-term and all this stuff. I said it's the best risk/reward I've ever seen in my career. But every time uranium would have a couple of tough days, I'd have guys come out of the woodwork saying, "Hey big guy. Hey dummy."

I couldn't explain it in any certain way. I could not care less. I have my long view. This is my view based on numbers and supply and demand and you focus Mr. Smartass on coming out after me, on

what's happening day-to-day. That might be your thing. You're trading day-to-day. That's great. Or, you're going to let the price action dictate your conviction, which I think is really stupid to do. It's interesting, and your view is how I view the world. It's euphoria. It's depression, right, when it comes to investing. I've found that for me, the best, the times I've done my best is when I can pick off that human emotion.

You and I were talking about, I had never played poker, ever. I never played. A lot of my buddies play. I think I was telling you it was maybe when we were DMing back and forth, it might have been two, three, four years ago, I forget now. A friend of mind called up and he said, "Hey. One of our friends in town was hosting a charity poker event at his home and there were like 70 people coming." And he said come on. I said, I never played and he said just come on over. I'll teach you on the way over. That's a ten minute car ride. So, he picked me up and we were driving over and he gave me like a crash course in poker. I think we were playing Texas Hold 'Em, and we sat down. There were a bunch of guys who play a lot. Fast forward, if we started at 7:00pm, but three in the morning, it was me and another guy left. I still don't think I really knew what I was doing, but I realized it was risk, I had enough of the ground work it was risk/reward.

It was like portfolio management. It was, right. So, obviously, beginner's luck. It fascinated me, and when you started telling me about your poker playing. I have some buddies who are hedge fund managers who play a lot of poker, and high stakes poker, and big-time poker. There's so many similarities. I can see how you can have translated that skill set. And I haven't played since, by the way. It's fascinating to me.

So, talk about as you started in your investing, how did you get started? What did you do? How did you say, let me teach myself because in your writings, you're writing as though you've been doing this for a long time. You understand, not just the jargon of investing, but the thought process of investing and the thought process of being contrarian essentially. If I had to summarize your style, that's what I would say it is. So, walk us through how you taught yourself.

This podcast, and I said to you earlier, it could have a few thousand or a lot of thousands listening. I said to you, offline, when we were just speaking, listening. The people I don't care if listen to it or not are professional investors. I could not care. I don't do this for them. They know their stuff. I do this for people who are trying to

do it themselves. I see a lot of things, even now on Twitter, I'll see people post stuff on uranium about stuff where I just say, "Aww God. That's not what you need to be thinking about." Or sending a mainstream thought and saying this guy really likes it or this newsletter guy is pounding the table on uranium or this [inaudible 00:32:22], well they've been doing it for the last five years, folks.

So, how did you get started? What, cause you don't write like a guy who said, eh let me pick this up. Walk us through that.

Jacob Leedgaard: In the beginning I think I made... I still make mistakes, of course. Everyone does.

Mike Alkin: I own that title, so.

Jacob Leedgaard: Okay. But the kind of mistakes you make, they are of a different nature, I would say. For example, in 2010 I got involved in the Chinese reverse mergers and so there was just a bunch of fraught coming to the New York Stock Exchange back then. Smart guys like Jim Chanos, famous short seller, he was on the short side of those trades. I was, I was on the wrong side. That's not where you want to be. You don't want to be on the opposite side of him.

I saw these fascinating, beautiful looking numbers like earnings of four, growth rates of 20%. It just didn't make sense. This stock should be trading a lot higher, but it wasn't. So, I got lured in, not doing enough due diligence on it. And it turned out to be shell companies. There was actually, at least for some of them. There was this documentary called the Chinese Hustle or the China Hustle or something like that coming out on Netflix where they went deep on these Chinese mergers. I saw one of the stocks. I lost 100% in it, and I just saw it featured in the film and I took my hand to my eyes because it was not pleasant to watch.

Mike Alkin: But what a great learning experience, right.

Jacob Leedgaard: Yeah, sure because you want to do more due diligence when you've got burned.

Mike Alkin: So talk about, let's talk about the due diligence that's goes involve because a lot of times you can, you know companies are polished, right? Either they're just flat-out frauds like some of these companies were, or they're really big promotes, and you'll experience that a lot in the world of natural resource investing and biotech and small cap tech. There's a lot of promoters out there. Talk to listeners about what your due diligence process is.

Jacob Leedgaard: You don't want to rely too much on their investor presentations. That's one thing because those are a waste, best-case scenario, blue-sky scenario kind of stuff. I find the 10Ks and the 10Qs, you know the quarterly report, to be of much greater value. To read them from the first letter to the last because in those they have to disclose all the risk that they seek. You get a lot more realistic look at the risk involved. That would probably be the number one thing I would say. Just read a lot of quarterly reports.

Mike Alkin: Yeah. I could not agree with you more. Again, if a company is fraudulent, they'll say whatever they want sometimes in the Q's, but they know there are consequences for those. Oftentimes, what I've found is it's like a blank canvas sometimes. The Q's or the K's or the proxies, right, they don't come out and give the bad news in there, but they give enough information where you can put the pieces together. That's where you can, like stepping back and applying common sense to things. That's how I tend to interpret those. I take those for what they are. I search through them, and as you go on in investing, as people go on and learn more. Just like I've learned so much from so many stupid mistakes, but at the time they weren't stupid mistakes. I didn't know better. So, you make mistakes and then you learn and you keep that in your mental filing cabinet. My gosh, you can really start piecing the puzzle together.

Especially in the world of mining, right, where you can look at

Jacob Leedgaard: A bunch of promoters there

Mike Alkin: Oh gosh the promoters. And you can look at, in there they give you the technical reports. If it's a Canadian company, National Instrument 43101, and it tells you the history of the project. It tells you the geography. It tells you the drilling that went into it. It tells you the grade and the cut-off grade and all of this stuff. It could have been an old mine that was closed and now they're going to be reopening it. There's a new report that was issued.

Jacob Leedgaard: And that mine just keeps on recycling from company to company.

Mike Alkin: And bingo, it recycles. You have to ask, was there a closure report associated with it? Did anything change in the grades that they were looking at? You got to piece stuff together. It's almost like... What intrigued me early on about investing and my first half of my career was really deep dive short selling. I have an accounting degree, but in school where I went, there was no class that said here's a financial statement. Here's how to analyze one, and then

here's how to really analyze one for the real world. It's more like Finance 101 type stuff.

In the real world, it's how to put the mosaic of information together. For me, what I realized was it was almost like being a detective because you keep peeling the onion back. I like it a lot. I watch a lot of TV shows with crime dramas. They always have this big board and they put pictures of people up and they put different things up. They're trying to look at it and stare at it and try and move things around, put all these pieces together. That's kind of like investing. That's how I found it early on. What's that mosaic of information and what does it lead to? It's always intriguing for me.

For my picture on Twitter I use the picture of Detective Columbo.

Jacob Leedgaard: Right. Right. Yeah.

Mike Alkin: 'Cause I always found that funny.

Jacob Leedgaard: It's a good metaphor for what you're doing, especially as a short seller. I find that stocks that have a lot of short seller, where the short selling percentage is high, I tend to stay away from it because you always know that the short sellers, they do more due diligence than the longs. I'm really careful when I see high shorts.

Mike Alkin: It's interesting, right, because people think that... We use Tesla for example, which is just unlike anything I've ever seen in terms of the polarizing nature of the CEO and the bulls, the cult-like nature of them. Look, the bulls have been right from the stock price perspective. The stock keeps going up and it's like Elon Musk is Teflon. Nothing can damage him. But when I see the shorts, and I do my own analysis in my newsletter. I have subscribers, and I don't share that on Twitter. I don't share that on the podcast, the work that I've done on it, but the people who subscribe see the work I've done on it. To me, none of it adds up. It doesn't make sense.

There are those on Twitter who are much more public about it. These, obviously by the stock price, their work has not come to fruition yet. They get hammered by people coming out and saying shorts, you're going to get burned; you don't know what you're talking about. You're working in your mom's basement. You have no idea. This is, I will tell you, having been a professional short seller for my whole career. This is by far, some of the very best work I've ever seen done. Some are professional investors, and I know who they are. Others are really smart people at home who get it. They do tremendous work.

That's an example, though, where the stock could still go higher, right? And then there's sometimes, where sometimes you know in a sector where people might own some stuff, they might look to short something that's more liquid so that catches more short interest. That's a really good observation because the risk is so much greater on the short side. If you're wrong, your risk is unlimited. Somebody, as you know about risk/reward, you got to at least put the work behind it. It doesn't mean the stock price is going to reflect it.

For me, the best lesson Jacob in that was the very first company I was assigned in my first hedge fund job was a for-profit education company. I think we shorted it. We spent a couple of years doing it. [crosstalk 00:42:35] Yeah, but yes, and the stock I think was eight bucks or ten, something like that. I forget, it was so long ago. But it was basically all I did for two years was

Jacob Leedgaard: Oh, that must be excruciating though.

Mike Alkin: No, it wasn't.

Jacob Leedgaard: Just to sit and wait and wait and wait.

Mike Alkin: The thing was, the stock went from probably eight into the mid-30's and every step along the way, out in the field, talking to former employees to former students, going through the enrollment process ourselves, looking at the financial statements, we knew, I knew this was fraud. I knew it was incorrect on this company. I knew it didn't make sense. Nothing made sense, but yet they put up a quarter and a quarter and a quarter and they would blow the numbers out and blow the numbers out.

Meanwhile the stock, now I wasn't managing the position, the founder of the fund was, the portfolio manager. I was doing the research and there were a few other hedge funds doing it at that time. There was no Twitter or anything like that, so you were in your own little silo doing you work. The more work that I did, [crosstalk 00:43:41] the higher it went. The more we were convinced. We were convinced. We knew that this was a house of cards. But the scoreboard every day was showing the stock going higher and higher and higher and higher. For me, it was geez even... So at that time, and the portfolio manager at the time was more dogmatic and he was like, okay, I don't care. We were right.

Mike Alkin: Was more dogmatic, and he was like, "Okay, I don't care. We're right and that's it". And he sized it appropriately, and I think

that's a lot of times ... people don't realize on like a Tesla, it could hurt you, but you gotta size these things, appropriately, and hopefully you'll size them appropriately. But it wasn't until the Attorney General sued them, the FBI raided them, on this company 20 something years ago. And then the stock eventually went to zero, but that was a couple of years. And to me it was a great lesson saying, okay, you do the work, but even that doesn't mean it's right. You gotta step back and find that one catalyst, and sometimes you don't know when it's coming, it just comes out of left field. So it's hard, it is hard, but had we not done that work, we would've never had the conviction. We would've covered at 10 and 12 and 14 and 16. So it's tricky, and it's hard.

Jacob Leedgaard: And what I find interesting here in what you just said is you were waiting for years and years, and then the victory when it comes, it's short, right. And it's all over, and okay, you won, but the victory was very short. And for us, that's why sometimes people have difficulty in taking contrarian trades, because that's a lot of pain involved in the waiting. And then all of a sudden, you make all the gains, and it's over so quickly. And the pain acts on and on, and on. And-[crosstalk 00:45:37]

Mike Alkin: You did a post in May that caught my attention, and it was called "Get Paid for Being a Masochist." And you wrote about Concordia Maritime. And that headline caught my attention because, I smiled when I saw it because I said, "My entire career, I get paid for being a masochist."

On the short side, you are getting pounded and pounded; and on the short side, when you come up with an idea, at least for the way we do it, or I do it, you know you're settling in for the long haul. I can't figure out, "Okay, let's find them [inaudible 00:46:17], we're gonna do the work, they're gonna miss tomorrow, or this quarter."

You know, normally it's not obvious, so it could be nine months or 12 months out that you're looking at that catalyst, right? And you're building a position, and you're doing the work, and you're scaling into it. But in the meantime you're getting punched in the face, most of the time, if the stock has got some momentum behind it. And the same thing on the long side, when you are a contrarian investor, my goodness, right? You are just getting pain. Now, so let's talk about this. So why would somebody want to be a masochist?

Jacob Leedgaard: Because it pays. At least you can take the pain, that's the problem. Many cannot take the pain. For one thing, immediate rewards,

and usually it starts to go up, slowly. And know if you're on the momentum side, the growth starts, then you get mental rewards daily, pretty much. Because it's more often than not, it goes up. But when it comes down, it can be quite dramatic, and hurt really bad. But at least those who are on the long side, they have a lot of mental comfort for a long time. [crosstalk 00:47:39][inaudible 00:47:39]

Mike Alkin: The funny part about it is, if you think about it, what give me the comfort on dealing it is everything comes down to risk, reward, and probabilities. So, I'm willing to be a masochist, and see red every day on that screen. Let's say it's on the long side, if I go in to a position, or a sector, or a trade, or a theme, and I say, "Okay, I have ... I'm making up numbers, I have 30% downside, but I think I have 300% upside." My risk, my reward is 10x my risk, I'm willing to take that pain, right? And what I find is, often times right, your goal, it's going to be realized quickly, but in the interim, you're sitting there, you're going, "Ugh."

And then that's where your conviction gets tested, because everyone says, "Well, how come the market doesn't see it; what makes you see it?" Now, that's where, in names that are ... where I was just talking on the intro beforehand, in a market that is so much more followed, so many more eyeballs on it, it's hard to make that claim, "Well, the market's missing it."

That's ... when I'm looking at the junk pile, it's easy. Not easy, nothing's easy, but it's easier because there's less people paying attention and changes get missed. And that's when you get paid for being a masochist.

And I thought, when I read that post, the headline caught me and then it was about product tankers, you were talking about, and I thought, "Wow." And I'm drawn to the tanker, the shipping industry, 'cause there's such violent swings. And in your post I thought it was great, you go out and you said ... the question is often the case with deep value, cyclical situations where future demand is certain if not ... is not if the market comes back, but when. This is why patience is the mother of all edges in cyclical industries.

And then you said the curious Chinese proverb states that patience is only possible from a place of strength, which from an investor's point of view can be interpreted as not depending on near-term gains and refraining from using leverage in cyclical stocks, a tremendous advantage, and never being forced to sell.

And I thought, "You got it." And as I'm reading that, I'm like, "Hey, wow, I don't know who he is, but this guy is good, he's sharp, professional investor." And we started talking and you told me your background, I thought, "Wow, this is fascinating." So, good stuff.

Jacob Leedgaard: Man, I'm glad that you picked up on it, 'cause I kind of enjoyed writing those paragraphs.

Mike Alkin: It captures everything, right?

Jacob Leedgaard: Yeah.

Mike Alkin: And then you said the second magic ingredient is cultivating a tolerance for pain. And I wanna read this, "It's essential because the troughs are often outdrawn and longer than expected, and the upturn is often short and violent. So while the net result may be over performance, in the end, deep value investors experience more defeats on a daily basis than momentum investors." Which is why it's harder, right? [crosstalk 00:51:03]

And if ... there are days my wife will say to me, "Listen, what's wrong?"

"Nothing, I'm fine."

"What's wrong?"

"Why?"

"You seem like you're a little grouchy."

Right? And this is when I was just doing short-selling for years and years. And I said, "Well how would you like it if every day..." You know you're right, you've done the work but you're getting pounded. And we laugh because you just kinda settle into that. But I think you have to be wired that way. I'm wired to be- [crosstalk 00:51:35] right? You can't just say- [crosstalk 00:51:37]. Yeah.

I have a friend of mine, I saw him last night. And we were at one of our neighbor's, their daughter had a birthday and we were there and I saw him, and he's one of the nicest guys I've ever met in my life. And he is a financial advisor. Very good, he's more sales than he is advice, but he's been around 25 years, but a sweetheart of a guy and sharp and ... and he couldn't ever see the negative in anything, right? He couldn't ... when we talk about, like, uranium, he's just like, none of it makes sense to him. And he's very bright.

But it's not-[crosstalk 00:52:22]

Jacob Leedgaard: But what doesn't make sense?

Mike Alkin: What doesn't make sense to him is simply the pain threshold. Now, obviously, it's not the pain threshold, it's, "Why would you like something that's not working?"

And I explained risk/reward, and again, he's not an analyst, he's not ... for him, he couldn't go to his clients and say, "We're gonna buy something that has ... we might wait 12 or 18 months, which we've been waiting, and it's turning now." But that's not ... he's talking about things that are, hey they're working and look at this, and this is great, and everything's good, and all that stuff. [crosstalk 00:52:59]

Jacob Leedgaard: Momentum investing.

Mike Alkin: It's momentum investing, that's what he does.

Again, bright, but not drilling down, not doing the analysis, so it's easier to read a headline and go with it and it's just there. Where, for me, I can't ... and when the market turns down, he gets hammered, right? So it's just kinda the way it works. And I'm looking to say, "Okay, I'm willing to sit back and hang on for a while." If I think my downside's limited.

It's a fascinating way to invest.

So tell us ... okay, so it's hammerinvesting.wordpress.com is your blog. And you're @hammerinvesting on Twitter.

Jacob Leedgaard: Yes.

Mike Alkin: Tell us, how often do you write stuff, what excites you, how do you get the word out there?

Jacob Leedgaard: I write whenever I feel like it. So I write for my own amusement and sometimes people pick up on it. And that's great. I chose the handle Hammer Investing because you want to go where things are not obvious. You wanna do more than scratch the surface, you want to hit it to really uncover the truth about a situation. So whatever's in the media, it probably doesn't have much value because everybody knows. If it's the headline, everybody knows it and then there's no edge.

And that's another thing about being a poker player, you learn

that, okay you don't sit in a game where you don't see an edge. So I need ... so when I sit and play someone, I would say head's up especially, so it's like one-on-one, and ... if I didn't see a mistake within twenty or thirty hands, I would just say this is not worth my while. I mean, I could compete and it would probably be fun and interesting, but I'm there to make a living. If we battle it out 12 hours in a row and none of us have an advantage, then it would just be the poker side who got spoiled.

And perhaps he was the better player, or she. And, yeah, so I just wanted to just ... every day when you go to work, so to speak, as a corporate player, I had a losing, I lost 47% of the days that I played. So most people would be pretty uncomfortable with 47% of the time you go home poorer than you were before.

So I was pretty envious of people who had jobs like a gardener where you see stuff grow every day. Just a little bit every day. So I was like, I'm gonna ... so envious [crosstalk 00:56:22]

Mike Alkin: Jacob, do you know how many times over 20 years, and especially the first half of my career, I would talk to my wife and I would say, "I should've been a carpenter." And I would say, because you know why?

Jacob Leedgaard: You see the results.

Mike Alkin: Every day [crosstalk 00:56:37] you get there and you build something and you walk away. I said, "Here, I do the work and I say wow look at this, I found a piece of the puzzle." And the stock goes up 5% and I was short again.

But you're right. But then when that reward comes, it is so short-lived that, if you've scaled it right, you know you say, "Oh, okay." And that's where ... on our short, on that for-profit company way back in the 90s, it was ... you can only make 100% but, it didn't go straight up every day, you would trade it around a little. And as it went up we got bigger, and so ... but you do, boy, as you're saying it, it just so resonates with me, what you're talking about.

Jacob Leedgaard: Yeah, so how do you, exactly like you said, the way to protect yourself in those situations, is the [inaudible 00:57:31].

Mike Alkin: Yeah.

Jacob Leedgaard: Because that is another thing I ... one of my more recent mistakes was actually, sizing too hard on the high risk/high reward

situation. So, still to this day, it was a stock that failed, and still to this day I think that the risk reward was good. But I got hurt unnecessarily by sizing so much. So risk is high, and this cannot size as hard as you can when the downside is more protected.

Mike Alkin: Yup. [crosstalk 00:58:12]

Yeah, and I like the probability weight too, you know, sometimes I don't just say okay I want this type of company. 'Cause I can see the advantages and disadvantages of others, but if I think something has 5x or 8x or 10x upside, right? And those are rare but if you think that, then I have to say, well what's the probability that happens? And it might be much lower than something that has much less of a risk reward. But if that's the case then I make it a much smaller position. And so probability weighting comes in so important when you're managing a portfolio. It really, it is, and god when I was playing poker, and I may play again. Maybe I'll play with my 12-year old and-[crosstalk 00:59:05]

Jacob Leedgaard: [crosstalk 00:59:05] like you have a handle on it.

Mike Alkin: Yeah, well I'm not sure, like I said it's beginner's luck, but my 12-year old probably beat me pretty good at it 'cause he's got a good gut. But, yeah, it's such a fascinating thing and I love the fact that you're ... I love that we can bring you on here and talk to somebody who has a really good investing mind that is worth my time reading, and I think is really fascinating. And like me, you didn't go to Harvard and get your MBA in finance 'cause you don't need that. It doesn't hurt, but it doesn't ... it's pretty cool.

Okay, so what, in the next few minutes, what excites you now? What's interesting to you?

Jacob Leedgaard: I do look at shipping, like you mentioned, there's the tanker segment. Also look at LPG, liquefied petroleum gas, which also shipping. And cloud carriers, I also look at that.

So what's interesting about that space is that there's been massive oversupply for a long time and now that is coming down because they are hurting. They're not receiving the prices that they need, so they need to cut ... you know there's some new regulation coming on in 2020 where they need their gases upgraded, and so they need to consider whether to do this expensive upgrade or simply take out some of the older ships. And a lot of those older ships, or vessels, are being taken out of the market now. And so prices will, I think, almost certainly will come back to more profitable, or to profitable, levels again.

So again, cyclical situation, and I'm also very attracted to those, for the reasons we spoke about, about the pain. That if you develop a tolerance for it, then I think that's more value to be had.

Mike Alkin: We are in the same camp on that, that is for certain.

That's great, and I find ... and some of the, the cyclical ones ... in these deep cyclical industries, that's why you see ... the price movements when it changes at that inflection point are so violent.

Jacob Leedgaard: Yeah, and that's why you need to get in early. You cannot wait for the thing to turn. Because many people say to me, "Okay, Jacob, tell me when it's starting to turn." But by then it's often too late. [crosstalk 01:02:11]

Mike Alkin: Absolutely.

Jacob Leedgaard: And they want to sit there and wait, and wait, wait for me to give ... you know, to turn on the button when ...

Mike Alkin: So it's like, okay, so let me get this straight. So you want me to absorb all the pain and just let you know when it's ... when not to absorb it. Doesn't work that way. It's like, right? You've gotta be in there and try and ... you just gotta be there, is what you have to be.

Well Jacob, this is great, I really enjoyed speaking with you. It was good, I always enjoy our back-and-forth on Twitter private message. So it's good to be able to chat with you and ... and the website is hammerinvesting.wordpress.com, and you are @ hammerinvesting on Twitter. That's great.

I'm gonna have you back and next time you come back we're gonna walk through a theme together, an investing theme.

Jacob Leedgaard: Alright, [inaudible 01:03:16].

It was good to talk, I hope.

Mike Alkin: It was great finally speaking and I look forward to staying in touch.

Jacob Leedgaard: Yeah, me too. Thank you Mike.

Mike Alkin: Hope you enjoyed listening to Jacob. I really enjoyed speaking with him. You know, his ... when I originally read his, "Get Paid for Being a Masochist" I thought who is this guy? I really like this. And as I read it, and one thing lead to another, and I thought you

know what ... we DM'd a bunch, or PM'd, whatever it's called, private message on Twitter, and I thought it'd be interesting to hear from somebody who has a contrarian view, and it was not, he's doing it now, making a living, but he didn't grow up with a professional investor. So I wanted to share that with you.

Anyway I hope you enjoyed it. I'll take write-ins, I'm looking for new teams. I am open. I've divorced the New York Jets. I have divorced the New York Jets. I wrote to my friends, I think I said earlier in the podcast, I'm getting a divorce from the Jets. And I'm looking for a new team. So write in, let me know, and I'm open.

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