Mike aka @NonGaap - Master of the Dark Arts of Corporate Governance
The Business Brew

Mike is an ex-activist investor who writes about tech, corporate governance, the power of friction & incentives, strategy, interpersonal board dynamics, and activist fights.

In this episode Mike and The Business Brew discuss everything from corporate governance to the potential for charismatic personalities to use their brand to make a run at real companies. Mike has a unique outlook on the world. Mike describes how the clues in corporate governance actions can help investors triangulate their ideas of valuation. At times, Mike will even use corporate governance changes as signals to initiate positions. For instance, he used clues to call a bottom on GrubHub shares and was correct.

Join The Business Brew as we discuss how a different analytical lens can potentially help improve analysis and returns. But more importantly, listen to a unique mind talk about how he looks at the world. It was a pleasure to chat with Mike.

A big thank you to Mathew Passy and his team for saving this episode.

Bill: Ladies and gentlemen, welcome to The Business Brew. This is your host, Bill Brewster. I want to prepare you for what you're about to hear on this episode. I recorded this episode with Mike also known as NonGAAP at N-O-N-G-A-A-P. He runs the NonGAAP substack. The audio was corrupted, his side of the audio picked up some of my audio, so there's going to be certain parts of this podcast that sound like my voice is a little bit different. I subsequently recorded a one-way conversation with myself reading off a transcript and listening to him. Matthew Passy, M-A-T-T-H-E-W P-A-S-S-Y, on Twitter is my podcast producer, and he also runs a podcast consultancy. You can find him at *auditmypodcast.com* or *podcastmeanything.com*. Matthew and his team stitched this thing together. I thought that the episode was completely lost, and they did a fantastic job at salvaging this conversation. I think that what we're going to deliver to all y'all is a pretty good representation of the conversation that actually happened. I'm just so grateful to Matthew and his team for putting in all the time. I know that I can be super anal and a pain in the ass as a client sometimes. They have done everything that I've ever asked them to and I just really appreciate them coming together to save this episode. So, I hope you all enjoy what you're about to hear. Thank you for listening.

[Business Brew theme]

Bill: Ladies and gentlemen, welcome to The Business Brew. I'm your host Bill Brewster. I got Mike NonGAAP with me, the master of the dark arts of corporate governance. Mike's doing some really cool stuff out there. If you don't know about him, he runs the NonGAAP, N-O-N-G-A-A-P substack. He goes by *@nongaap* on Twitter. He's just doing some really cool stuff, looking at the world from a different lens. Check him out, if you like what you hear today. None of this is investment advice. We're not your financial advisors. We're not your fiduciaries. You know the deal. This is all for entertainment purposes only. Do your own due diligence. Mike, how you doing, man?

Mike: I'm doing great. How are you doing?

Bill: I'm good. I recently resubbed you, because I got that Regeneron write-up that you did. I admit your substack sort of fell out of my process a little bit. When I read it, I thought to myself, how is this not still part of my process? This is insane that I'm not looking at stuff like this. I apologize for falling off the substack, but I'm fully back on.

Mike: Oh, no. Not a problem. Are you actually in Regeneron before you saw the write-up?

Bill: No, I'm not. I just found it very interesting.

Mike: I would say that as far as what I write, like a lot of the super value add tends to be tied to folks that have been following a name or investment for a long time, and I'll just get an inbound go, "Hey, what's this filing all about?" Then, I'll take a look at it, throw in some hot takes, and they backfill the actual fundamentals for me, which is appreciated. Then, we're able to build a pretty differentiated picture of what may be going on. Now, we can't always be correct, but it's definitely a fun way of looking at investing at decision-making for sure.

Bill: If people are not familiar with what you're doing, how would you lay it out as to sort of how you view proxy filings and incentives and whatnot?

Mike: I would keep it really simple. I think for all of us, as investors, regardless of how we label or brand ourselves, whether it's corporate governance, or value or growth, or anything of the sort, our game is we're trying to forecast valuations and make investments where we think there's some ideally risk-adjusted return between what we think is going to happen to the price and what the price currently is. I think for most investors, how they approach forecasting values is, what is it? Your forecast and financials, you're doing qualitative research around moats, and Porter's Five Forces and customers, and things like that. I take it even more high level than just forecasts and financials. I think, what I'm trying to do is try to understand, and maybe this isn't the right way of thinking about it, but we're building this on the fly, I just try to forecast decisions.

The reason I do it that way is if you understand what the decisions are, that drives incremental capital allocation and operational decisions, which in turn drive financial forecasting, which drives valuation. If you actually can figure out what the management team is doing ahead of time, that window tends to be an opportunity to get into a stock or out of a stock before others figure it out. When I think about proxies, and corporate governance, and things like that, really what I'm trying to do is one of two things. Can I forecast what the incremental decision is that's going to happen here, as far as driving valuation? Or, can I just skip that step and are they signaling or forecasting their view on valuation? Because if I can just not even have to think about how it ties into the financials and driving that value, I can just rely on how I think the management team is thinking about valuation, I'll just do that. It's like a game of poker. If you're sitting on pocket aces, and you're showing all the signs of being very excitable and greedy, and things like that, I can't guarantee that you have pocket aces, but I've played this game enough times where I'm like, “You know what? This is kind of the telltale signs of this.”

Bill: [chuckles] Yeah.

Mike: [chuckles]

Bill: I may not know what you got, but you got something good.

Mike: Exactly, so that's why I started the Dark Art series is around that concept. Now, the reason I look at things this way is, I would say almost by accident and the reason I say it by accident is, so before this whole newsletter and everything else, I did spend about a decade doing activist investing at this fund out in San Diego called Relational Investors. Very friendly activist investing, I think it's one of the few funds that Marty Lipton, who's very pro-corporate, pro-management, he's very complimentary of our process. We work behind the scenes. We engage with management teams and boards to effectively try to drive decisions that we think will drive the long-term value of the company, or if there's a discount to value, to help close that discount to intrinsic value that we think the company is worth.

What do we mean by driving decisions? When you're on the board or working with board members, there are only so many levers that you can use at the top of an organization to try to drive the changes that you're hoping to see. One of the most common and notable levers is around compensation. Compensation metrics, the whole Munger “Show me the incentive, I'll show you the outcome” approach. If we feel like we can set certain metrics, or I call them guardrails, because you still want to give some flexibility and runway for the management team to do what they got to do. If you set appropriate guardrails, that usually sets into motion, the appropriate processes and procedures from the top all the way down, that hopefully drive the decisions that you think will drive the proper, whatever financial outcomes that you're hoping to drive, which in turn drives your valuation. This is something I've done for a long time from proactively trying to nudge decisions. Those decisions tend to get expressed in proxies.

When I left the business **[unintelligible [00:08:07]** and activist investing, obviously, it's not like you can take those skills and just be an activist investor after you leave. So, I went from investing from a perspective of driving outcomes to wealth can actually visualize, can actually see it. I've literally gone through the steps personally, as a professional from point A to Z, like, “Well, what if I just started from point Z of some of these situations? Start looking at proxies,” and see if I can back into what was the thinking that led to this disclosure. I think what I found, and it shouldn't be too surprising, is a lot of the processes don't necessarily change company to the company. Maybe it's reading the tea leaves, sometimes it feels like that way. But remarkably, you actually are able to see situations where, “Oh, wow, okay, there's a turnaround,” or, “There's a selloff” intuitively, that the management team and the board are going to be very focused on trying to fix that. Whether it's their economic interest, or it's a company they care deeply about. They want to fix and right the ship. How do you do that? How do you express that governance? That's my sandbox. That's what gets me really excited, to really dig in.

This isn't just like, 52-week low screen, “Oh, the stock is cheap.” “Yeah, you normalize revenues and the margins, put a multiple on it, there's your upside.” That could work, but you also get into a lot of like dead value and value trap situations. I'm more than happy to take those same situations and go, “Well, the stocks blown up. If I'm on the board, what would be my response? How would I think about this? How should we rally the team? How does that get disclosed in the proxy and the governance docs? Is everyone underwater? Do we need to like reset compensation to make sure everyone's properly aligned?” That's like you're running governance, the right way approach.

The other approaches things blow up or, or things are about to get good. How do I load up on equity and compensation to really maximize my personal upside as a manager or something else? Or, the markets not really understanding the inflection that's about to hit this industry or this company. “All right. Well, if you guys don't care, then we want to load up on the upside before you figure it out.” It definitely becomes this game within the game to a certain extent.

For most people, when they look at proxies and corporate governance, they kind of gloss over this part of the research stack, because it does really feel boring. It really does, like, “Okay, yeah. Salary, compensation, options,” but when you actually think through what drives those disclosures, what are the processes in place that drive how much to pay the guy or girl or what's the mix of equity or why should we pay equity in lieu of cash, there's some very interesting dynamics and, arguably, games going on around that.

Bill: Do you have a general framework that you're looking for? Are you looking to apply something to each specific situation? I think what you're looking to do is, say, this is what I would do if I was running this, and you're looking for the people in place to do something similar, is that accurate?

Mike: I don't know if I have a specific framework, but I do believe in the whole notion of, you’ve got to stick to your process. You’ve got to stick to what you think works, what you think drives value within the names that you look at. Certainly, when I look at a situation, there are certain levers that I'm potentially looking for, especially on the tech side. Back when I was at Relational, I covered tech, notably software, network effect, marketplaces-type situation. So, from just a fundamental investor perspective, that absolutely drives how I look at governance, and what I think may be appropriate actions.

Bill: Do you mind real quick--?

Mike: Yeah.

Bill: Do you mind expanding on what's unique about that set of companies and those compensation schemes that you're looking for, for tech and marketplace and things like that?

Mike: I love tech. I love software. Maybe I don't like share that too much. I probably don't really write as much about that side of things. It's cliched, but there is something about just having that whole notion of software eating the world, and that thesis has seemed to play out for quite some time. When Microsoft got its new CEO, Satya, they asked him, “What is your M&A strategy for Microsoft going forward?” One of his first big acquisitions with Minecraft. You take the time machine, and think about Microsoft at that moment in time, and that's your first major acquisition as a new CEO. It was very surprising in a good way for me.

Bill: Outside the box.

Mike: Outside the box. The way they described it is, we're looking for communities, we're looking for networked assets. That resonated in the sense that, wow, Microsoft just clarified how I looked at tech, and why I like tech. Here are these communities of passionate users around certain niches and activities, and the internet and technologies allowed them to all connect with each other and build these interesting things, and that whole notion of using software and technology to bring these groups together was a very awesome experience.

I remember the first time I got my modem dial-up when I was a kid, and being able to connect to folks. Some corners of the internet at the time was a little insane. I'll acknowledge that, but it was cool to meet like-minded people.

Bill: Still is.

Mike: [laughs] I guess that's FinTwit in a nutshell.

Bill: You definitely find your niches.

Mike: [laughs] You can definitely find your niches out there. I started investing in the traditional deep value model, small-cap deep value, like very, very, like RAM and net-nets out here in Pasadena at a fund called First Wilshire Securities, who was basically the first one that actually gave me a shot because I came from more of a nonprofit background. So, I'll forever be grateful for them.

Bill: What did you at nonprofit?

Mike: I graduated SC in my first year, so I was really passionate about social enterprising, and using sustainable business models to not only drive cash flows, but then use those cash flows to contribute towards certain missions, nonprofit missions. It's just funny with the ESG movement, I feel like I've come full circle with [laughs]--

Bill: I was going to say you’re like the OG of ESG. [laughs]

Mike: I know, it's funny. I worked at this little operation out here in LA, that they were trying to build businesses around training youth and giving them jobs, for job training, and to build certain life skills in the process. Obviously, we had a like a coffee roaster, so we roast coffee, that was supposed to be a combination of like building skills, but also like using those proceeds to fund the mission and to fund other organizations that worked with us. Super cool. The biggest takeaway with that--

Bill: Would the kids actually come in and roast the coffee and sell it and work in the roastery?

Mike: We never got that big for that particular business. Oftentimes, it was just me roasting coffee. [chuckles] That business was a two-step where we were going to do job training, but we had to get the business. Again, sustainable business first. We had to get the business cash flowing, which meant we had to work with vendors. It was hard work. The biggest takeaway I can say from that whole experience is you have to have a great franchise to support the mission. If you don't, it's very, very difficult. Unless you're the Starbucks of the world, and you're driving appropriate ROICs and return on capital, and all the moats and everything else that you have, it's very hard to do anything more than that. But if you get that escape velocity, you're presented with a wonderful opportunity to not only drive meaningful change, but it's this-- I swore I wouldn't say flywheel, but here I am about to say flywheel-

Bill: [laughs]

Mike: -where it's like, you're profitable.

Bill: Yeah, I know--[crosstalk]

Mike: [laughs]

Bill: They are.

Mike: When I see ESG, and the ESG trend, I actually see-- I know it's easy to be pessimistic about the category, and just what it's about, but maybe it's because where I came from, and how I look at things, I'm really optimistic about it. There's actually some really wonderful opportunities to use that platform to drive some really wonderful outcomes. Now, will the industry be able to do that? Is the industry even motivated to do that? I don't know. Hard to say, but personally, I get it.

Bill: I think what's hard to say is, it's very hard to look at the idea of ESG and say, that's not a good thing for society. If ESG does win and it incentivizes capital allocation in areas that are truly bettering the world. Who really cares if it outperforms? Because the externalities could be so huge that we'll all benefit. Now that said, if you're hiring a manager, and they're saying I'm going to outperform because of ESG, then you care a lot if they outperform. Where I have some issue with ESG is you look at what some ESG funds hold, then you're like, “There's no way this thing is ESG.” That's just the financial industry taking marketing too far, but that's not necessarily a new story.

Mike: That is clearly a criticism that I share as well. Frankly, ESG, you shouldn’t have to carve out. The best companies, the best operators in the world are partly informed by stakeholders because they understand longer term, if you're going to drive value, you have to consider everyone involved. I think I've shared the story in the past, but Ralph Whitworth, who was one of the founding partners of Relational Investors, one of our big things was director diversity. This was even before it was, I think, really this popular, daresay, checklist concept that a lot of companies follow. Our view was, let's look at board composition from the perspective of, and this is how most boards think about director succession and planning. They think of it as one director at a time. They almost think like, “Well, we have a seat to fill, what is the one thing we need to address here?” Then they try to find that exact thing. If you actually took a step back, what you really need to do is go, “What are the big priorities of our organization that we need to address over the next three to five years?” Then think what are the holes there.

What you end up recognizing or seeing is, you actually don't have one seat you need to fill, you might actually need three to four seats, and those three to four seats naturally will have a very diverse set of perspectives and backgrounds. Really, what was our argument, if your process is really good, you don't even have to think from this ESG checkbox approach, you will naturally start filling out your roster of directors in the ways that people want you to fill it out. Something as simple as, “Well, let's eliminate the need,” and they're not going to say that publicly, but a lot of companies like to bring on ex-CEOs, or they want to bring on someone with public board experience. Well, let's eliminate that, let's just actually strike that out. It immediately opens up your pool of candidates by orders of magnitude. If you're limited to who used to serve on a public board and who used to be a public company CEO, your Rolodex is quite tiny. More often than not, that Rolodex basically becomes whoever the CEO wants to put on there and that's oftentimes not the right thinking that you should have.

I always joke that if you want to be on a board of a public company, you have one of two options. You either need to be 55, 60 years old executive of some public company, or you need to be a 30-year-old private equity or venture capital professional. Those are literally the two pools of people that get onto boards now. It's like you're either college buds with the founder, or you've done the networking circuit and everything else throughout your career. There's this huge pool of really talented people in the middle of that can really help drive a lot of value and bring interesting perspectives to the board level. But I get it, the process-- [crosstalk]

Bill: Yeah, your point, relevant experience. It's one thing for a board to say, “I don't want to take a huge risk that could backfire. So, I'm going to choose from a group of candidates that's relatively safe.” But I think there's far more upside and saying, “Let's throw out sort of the resume constraints around what may look correct. Instead, let's find the right person.” If you can be the type of activist that can go in and say, “Who cares what the paper resume is? It's all about finding the right people for this organization,” I think you can probably unlock a lot of value, if you can unlock that sort of thought process.

Mike: Oh, it's magical. I actually-- this is a very subtle piece of research. I'll pay attention to that. I'll see who you brought on, who's leaving, what are the relationships, where are the connections. At the end of the day, what is the biggest bottleneck or what's the friction of opening things up to try to find the best person. Normally, it's something around power and control. The CEO, or someone else wants to maintain a certain amount of control in the board, so they'll use certain processes and decisions to try to ensure that controls. This gets into the newsletter tactics. You find a situation where, say, company-- the stock blows up, and out of the blue, the CEO gets a massive grant of options, off cycle. What is going on here? It's very abrupt and quick. Well, when you take a step back and think, “Well, how is that possible?” More often than not, you start digging into like, “Oh, there's only two members on the comp committee.” That means they can be very nimble. “Oh, the chair, the comp committee has been around for decades.” Clearly, he has a very close relationship with the CEO. Then you start building this narrative, a story where it's like clearly someone wanted to get paid, and they could pull it off and they had the seats of power to make it happen very quickly. They were able to push it through and do this off-cycle grant because the board was tightly controlled, and you didn't have that diversity of perspective or that perspective from someone that went, “Wait a minute. Does this make sense? Why should we do it this way? Why can't we wait? We understand the need to get paid, but are there other avenues we can take?”

You can actually see the difference between an entrenched board, you can actually see how their decisions can be. Some companies, they're all over the place with how they do stuff, but you can literally see the difference between what I would consider a well-run board and one that will flail around and do things that clearly are in the interest of those inside the organization. Going to your point, yes, I think opening it up will drive wonderful long-term value, but there is an agency cost to a certain extent and power politics at play that make it difficult. Hopefully, whether it's an activist or this whole ESG trend, that will hopefully facilitate more openness, but we'll see how that all plays out for sure.

Bill: As someone that likes tech and corporate governance, how do you feel about some of these dual-class structures, some of these guys have complete control over what's going on at their company?

Mike: What's funny is, I come from the camp that if you're one of the top operators and thinkers in your space, you already have control. You don't need dual-class control to run the organization per se. Now, I get a lot of people will disagree, or maybe not a lot. A few people will disagree. But I'm probably going to sound a little bit cynical here. It almost feels like the concept of dual-class control initially had its roots around protecting the founder, not from public investors, but from VCs to a certain extent, and keeping their seat at the table to a certain extent, and getting them replaced with “adult supervision” or “professional management.” Somehow that evolved from protecting founders from the VCs to protecting them from these big, evil activist funds and corporate vultures-- which I mean, objectively speaking, the number of funds in the marketplace that can do what folks think public investors can do is quite small. It's almost comical the amount of protections that these founders have been afforded with this dual-class voting structure in the name of shielding themselves from who, Carl Icahn? You still need to build a coalition of other investors to drive this change. Or Elliott? There aren't that many funds that are the boogeyman to really justify this structure. Then you start, well, maybe I'm being cynical, but now it's franchise considerations where, “Yeah, we're going public and to be founder friendly, we're going to give you a dual-class control, because we're deep in the money. We're about to exit. What's it to us to give dual-class power?”

I always say, “You know what? I would happily give dual-class power to my CEO if I was deep in the money, had liquidation preference, and a board seat.” Yes, certainly. Here's your control [crosstalk] I'm not at risk. I personally think you don't need it if you're doing things well. We’ve got to work in reality as investors. As an investor, within the context of dual-class control, when it becomes more of a ubiquitous concept-- and you can already see some of the pushback with the indexes, saying, “We're not going to consider like new dual-class listings in our index, and you have to put in sunset provisions so at some point, it's no longer dual-class.” That's great. I actually think that's the right compromise. Like, “Okay, you want to be newly public, there's a whole lifecycle that all newly public companies tend to go through. Yeah, go ahead. We'll give you 10 years, and after 10 years, it is what it is.” Everyone gets one to one voting, and we'll sort it out from there.

Bill: No, that makes a lot of sense how you said that. Do you think to your point-- you mentioned that the indexes are driving some of this change and that it's also a pretty good compromise, do you think that the services that are advising the indexes are doing a solid job overall? Or, are they just checking the box? My perception is that they're saying yes, but maybe I'm wrong.

Mike: I think there's obviously a lot of controversy and friction around what the index is due from a proxy voting perspective, as well as what the proxy advisors are advising. My takeaway is they serve a specific role in the marketplace. All things considered, they're doing as good of a job as you can ask, as far as literally being in charge of monitoring all these different proxy filings and compensation schemes and having basically a view on everything. Where they fall short, and it's not their fault, is they have a tough time around nuance, especially around things that require some level investor perspective, to really come up with the right solution. This is where a lot of funds tend to outsource all their thinking to the proxy advisors, when that investor perspective that they need to fill in the holes, that's their job. That's not the role of the indexes and the advisors. What ends up happening is those problems tend to build over time to the point where it blows up and requires an activist to clean up and actually highlight why they're issues and then those issues get kicked upstairs at these advisors and they go, "Oh, yeah, that's not good. We support the activists." But it doesn't get to that point until all this-- in software, there's technical debt, there's governance debt that builds and then eventually can blow up.

I talked about this with some company like CoreLogic where their compensation structure incentivized the behaviors that now have this hostile takeover activist situation with Bill Foley that turned into them now running a process. If any of the shareholders or advisory firms just recognize that, as far as the metrics and the hurdles they're using, maybe we could have fixed this problem years ago, I don't know, but we definitely now have an environment where a lot of the problems in governance are due to issues that could have been addressed proactively if an investor caught on, but instead of built up over years and blows up like a volcano. This is going back to the notion of dual-class control in tech. Now, we have technical debt, governance debt. It's like a volcano. What are some decisions that may blow up in the founders and the companies face that now we have to address collectively, regardless of who has voting control?

It was funny when dual-class became a thing, I was like, "Just because you have dual-class control doesn't mean you have unilateral control." There are actually a lot of levers you can do to influence outcomes, and to drive decisions at these organizations even when you don't have the threat of a board seat. That's one. Two, if you are allowed to do what you want to do, even within a dual-class situation, you get into now the game of stakeholder capitalism, politics, I'm like, "Okay, you can ignore certain things if you're running it as a founder with your vision, but you ignore the thing eventually, you're not going to deal with me, Joe Investor, you're going to start dealing with Jim Politician but now using you as a political talking point to elevate their own career." The game of governance and all that, power and all that it, it elevates. When you took some voice away from the shareholders, I was like, "Okay, that's fine, but if you keep doing certain things, it's not the shareholder that's showing up. It's the politician. Would you rather deal with a shareholder or a politician?" I think shareholder is a little bit more reasonable, but that's just me.

Bill: Yeah, and more likely to actually get something done. The first thing that you'd said is that there are things that you can do.

Mike: When most people think of organization and governance systems, they think about-- this is a topic actually haven't really talked about, probably for a good reason, so I don't get in trouble.

Bill: What can organizations do to set up the right system? What are some of the basic things that people should think about?

Mike: When you think about governance, you think about just literally the explicit organizational governance. The documents, articles of incorporation, bylaws. Companies have multiple governance systems in place. The culture itself is its own governance organ and will often even reject decisions that a company makes if they feel like it violates the core values of the culture and the roots of the business, it's actually a very fascinating thing to actually witness. I would actually say a lot of the-- without getting too much into it, a lot of our friendly activism, or my experience in friendly activism at Relational was really just trying to realign corporate governance with the governance values of the culture, of what they thought was important, which was usually focus on the customer, focus on stakeholders and employees, and using those values to ultimately drive long-term stock value. We're getting very qualitative, very sky-in-the-pie-type thinking, but I can't even begin to describe, like, the excitement of showing up as an investor where-- there are certain notions when activist shows up and some of them are well earned.

The best engagements are the ones where everyone as far as the employee, and the team feels like, “Oh, well, we're getting back to our roots. We're trying to get back to how we should be doing things.” You're not going to agree with everything that we may advocate for, but just trying to get that true cultural organizational alignment is a big deal. To your question about, there are different levers to influence change. Simply appealing to the cultural core values of the organization and almost driving a bottoms-up advocacy works, it actually does a lot. Or, even just having conversations with other shareholders about issues, which in turn get brought up by those shareholders to the management team. Suddenly, it's this game of try to show the board and management team that there is this emerging narrative that we need to address that goes beyond having control.

This is why I love-- this gets into busted IPOs, but this is why I like young companies that go into selloffs because we get this reset to first principles. It's a reminder of like, “Well, what got us here in the first place?” Oftentimes, management teams are the most open during these periods because they do want to get it right. They want to figure it out. Snapchat got a lot of heat because they went public with no voting class shares, but what happened when the stock blew up? It went down to what, five, six bucks a share near the bottom? Suddenly, they refocused and obviously, they had the trends in their favor. I always joke, when a stock blows up, wait for the CEO letter to its employees that says, “I'm sorry, and this is what we're doing,” and then they go home. [laughs] [crosstalk] It happened at Snapchat. It's funny because it seems to happen-- happens a lot.

There is this notion of, you get product-market fit, you're on a rocket ship, you think you're just like a rock star, and you are a rock star, but you get punched in the face where half the rocket fuel blows up, and you're just drifting. Now, you've got to figure out, "Well, where do we go from here?" During those moments, you actually can add a lot of value and be very influential without having any voting control. You're just working with the team and advocating for things that you think that matter, and it comes from a place of caring. That's what I mean about like-- there are actually a lot of soft approaches to drive changes and to be influential without having that voting control. You should never underestimate the power of a single voice to drive change. That's been hammered into my head for a very long time. It was always this thing where I think in most confrontations, people are like, "Yeah, we'll give you one board seat," but for a certain set of investor, that one board seat is so powerful. Now, you gave me a seat at the table, I'm only one vote, but I'm now a potentially a disproportionate voice to advocate on behalf of shareholders or to basically-- now we're getting really into the view. In the boardroom, there's this notion of collegial culture. You want to be collegial. You want to have thoughtful conversations, but you don't want to be a jerk about it.

Bill: Yeah, you don't want to be the one that stirs the pot. [crosstalk]

Mike: You don't want to be the one stirs the put. Well, I would say it gets weaponized at times. It becomes a way of shutting down thoughtful dissent or constructive criticism. Oftentimes, the activist-- this is actually a very good demonstration of having influence without votes. As an activist, you represent a vessel for change. You represent perspectives that more often than not are thought internally, but can't get expressed. So, when you speak up, and you say something, more often than not, there is a group, or often a significant group of board members and insiders, who kind of agree, but can't say what you're saying. If you give them an opportunity to at least say, "You know, that's not a bad idea. What's wrong with that suggestion? We should look into that." Just being able to let someone inside the organization go, "Hey, what's wrong with that? Why not look into that?" can set into motion, some pretty powerful outcomes. Some pretty powerful changes. It's kind of a good-cop-bad-cop dynamic. I guess I'll play the bad cop and say what everyone knows to be true here. Use me as the excuse to look into it, to advocate for it. Because now I'm speaking up, the other shareholders start recognizing, "Hey, this might be an issue," now the board members can go, "They're advocating this, our shareholders are supporting this, maybe we need to look into it." Then suddenly, a lot of change happens.

Bill: Yeah. Then you get the whole social group thing going, where it's like, "Oh, well, this person's not afraid to stick up," or speak up. Then other people get to speak up as well about an issue that bothers them.

Mike: You're seeing it right now actually, it's funny. I'm glad we're having this conversation about it. Look at what happened over the last quarter. It feels like years but look at what happened in the last few weeks, as far as Facebook and Twitter banning the president. Very big deal, and how that set into motion the reaction of other organizations. And now, it's become this trend where everyone's just not donating to political PACs. It's like, "Oh, this is wonderful, corporations. We're getting out of the lobbying game?"

[laughter]

Bill: [crosstalk] I didn't think this would be the catalyst, but okay, I'm down for this.

Mike: There's that social proof, where it's like, “Oh, it's okay to now do the hard decision because someone else already did it for me.” It's virtue signaling on one hand, but it's also like, you know what, for a lot of these companies, they probably wanted to do this for a very long time, and this was now the opportunity to do. But they were either-- there was definitely a lot of concern to do it in the past and rightfully so. Literally, the same thing happens at an organizational level. There are a lot of things people would like to do that they're too afraid, and oftentimes it takes that one gruffy activist to bring something up that maybe drives that change. I personally laugh, but when an activist goes on the board, it's like a switch turns on. It's like all these directors that were fighting you become your allies are very friendly. You'd be surprised how often several directors will go, “We're glad you're here. There's a lot of work to be done.”

Once the dust settles, it becomes very clear that, “Yeah, there are a lot of things that that you said that were right, that we just couldn't agree with until you got here.” I love what's going on right now, as far as seeing certain concepts like not contributing to PACs, spread like wildfire, because it's a very easy, big picture example of what happens in an organization. A lot of your biggest critics from the outside suddenly become these allies. Obviously, they have their own self-preservation considerations for doing that. They're also the folks that are trying to do the right thing, but they're also trying to do it within the limits of maintaining their own careers and networks. Professional, I can't say certain things, that opportunity to be outspoken is very valuable. What's funny is activism is trending away, because a lot of the concepts are being embraced by others. It's almost like the new activist is the billionaire Twitter account that just says whatever they want, and they have the platform to call people out without consequence, because they made their money. They got that sweet FU money. So, use that, be the vessel for change, be willing to be outspoken, and maybe that that drives thoughtful conversation, that others can't really advocate, because they don't have that platform.

Bill: Yeah, I mean, there's something very freeing about that. You got that sweet Substack money, so some people-

Mike: [laughs]

Bill: -don't even have that. I say that somewhat tongue in cheek, but I do actually mean that there's an interesting thing going on. it's not like it just started with the internet where any voice that has a legitimate idea has a shot at getting noticed. I've been shocked at some of the people that have reached out to me that said that they listen to what I'm doing, and I really appreciate it. These are people that I used to idolize or work in the shops that I still do idolize. The world is much more about whether or not your ideas are good now, and can you add value? It doesn't really matter anymore about who you are, where you went to school. It's more about whether or not your thoughts are good enough to erode the barriers.

Mike: The reason I started the newsletter in the first place was, I was absolutely fascinated by the whole idea of online patronage and literally people just giving other people money on the internet. The idea that someday we're all going to be enterprises of one who can essentially make these API calls to different services to fulfill back-office or front. Whatever need within the organization, you can outsource, that was fascinating to me. This ties back to just technology and following the space for a very long time. I think we've all heard the whole 1,000 True Fans narrative, and all you need is 1,000 True Fans to build something online. I agree, that's true. What's actually remarkable, is tech house is like, a deflationary power to it, where the cost goes down. The idea of 1,000 True Fans is something that was coined, I think, 10 years ago, a decade ago. You actually don't need 1,000 True Fans. The new take, I forgot who wrote it, but there is something you say you only need 100 true fans to build something meaningful online. That's a very powerful idea, powerful concept. For me, when I started the newsletter, it was like, “Hey, I just wanted to start writing again, because I thought it would help improve my writing.” It hasn't. I'm still writing the same way as I **[unintelligible [00:44:15]**. The other was--

Bill: I like how you write.

Mike: [laughs] The way I describe my writing, I used to be a terrible writer in high school. Actually, I have the same writing style. However, you think about my writing style today, that's how I wrote in high school, and I tried to improve it because I was terrible at English. I hired a tutor-- This is a classic LA story. He was helping me with my writing and then we did writing assignments, he was like, “Man, this is really good. You should be a screenwriter.” I'm like, “What the hell are you talking about?” Like, “Oh, I'm a screenwriter. I just do the tutoring to make--” I'm like, “Dude, I'm just trying to get a decent score on my SAT II writing. Is this going to give me a high score or not?

[laughter]

Mike: He was like, “Oh, well--"

Bill: Like, “No, I'm not actually true trying to work as a screenwriter. Thank you.”

Mike: [laughs] He's like actually, “No, that style probably isn't going to work.” [laughs]

Bill: [crosstalk] -but it's not my aspirational goal.

Mike: Yeah, I just wanted to dog food this whole idea. It's easy to talk about like recurring revenue, software margin and network effects and tribes as a Twitter hot ticker on FinTwit. It's easy, but it was always like, “Well, I talked about it. Can I actually do it?” What would it actually be like? I was like, “You know what, let's try to dog food this. Let's see what happens.” That's the first thing, if anyone like dives into this is how surprising that the community around you is in their support of what you're doing. Bill, I think you've experienced this firsthand, you just don't realize how many people really are rooting for you until something happens or until you speak up or say something or you just throw something out there. The response is almost this fuel. It reinvigorates you even when you're kind of in the dumps or you just feel like, “What the hell I'm doing?” I don't know if you do this, but I probably twice a day I go, “What the hell am I doing? What is going on?” I don't know.

Bill: [laughs] No idea of what I'm doing--

Mike: I don't know anything. I am so dumb right now. Why am I even doing this right now? But the community is very, very supportive. They're very enthusiastic. I will say it is a very wonderful feeling to know that you have some semblance of recurring revenue that you can rely on. I'm not beholden to a company or business or a boss to get by necessarily on my day to day, but my goal and my job is to serve my community of-- honestly, they're friends. I guess I could call them subscribers, but a lot of them are good friends that support me and are enthusiastic about what I'm trying to do. It's a very freeing feeling. It makes it very, very hard to even consider doing anything else or doing another gig. It's exciting. I'm excited for the sense that-- so I did a write up about a year ago about the decade of influencer and influencer trends. People always criticize like the Kardashians, as far as selling out or doing this and that. My view was always you should be super excited what they're doing because in order for Joe Schmuck like us to make a living online, sustainably--

Bill: [laughs] Yeah, the Kardashians had to trailblaze that.

Mike: They had to trailblaze. You need to be excited that they made a million bucks or more doing some promotion or some girl like Charli D'Amelio can get plucked out of obscurity via TikTok and become this uber celebrity tastemaker in less than a year. You need those precedents, you need those moments to go, “Hey, if you believe that one day, you'll be able to be an enterprise of one, have a community around you, that supports what you're doing.” It doesn't have to be like this content creation. Someday, I don't know like the longtail, maybe you're just a rock star accountant. That just is really good at this one thing and you build a community of other accountants that's into that and people pay to either follow what you're doing, but also maybe retain you for certain projects. I think those outcomes are getting there. Personal branding becomes more important.

In a lot of ways, the internet has turned into throwback to Mayberry Lane, Mayberry Street, I forgot the phrase. where it's like, there's a reason it's called a baker's dozen, and they throw in that extra. It'd become a very a neighborhood type. It's internet scale, but it almost feels very personal, what you're doing with folks. Because at the end of the day, you only need to find 100 customers that are enthusiastic about you're doing to have a living. We're almost getting back to those days where you're just trying to run a business and do the best you can and hope people recognize that. I guess wrapping it all up, I'm excited when I see what Mr. Beast can do, and drive change and run experiments. I'm excited when Dave Portnoy can fundraise for small businesses and restaurants. Those are the wins and successes and cases of people rallying resources very quickly as one person to do some really remarkable scale things that lay the groundwork and trailblaze what others can hopefully do in time.

I literally only turned on the premium newsletter, February 2020. It's not even been a year for me and it's been a-- well, personally my life is the same, but from actually opportunities and getting certain messages out there and driving things that are important to me, that's life changing. It hasn't even been a year to be able to pull that off. That's a remarkable thing to experience, but just to consider. My Twitter account was basically a personal account. I still treat it like a personal account. But now, there's like, a lot more people that follow. You went through the same thing. Who would have thought? Not me. It's a very crazy thing, where in a year, how much you can actually change the situation in your life. It's remarkable. It's not like-- Listen, I think I've broken every rule as far as what you're supposed to do, in terms of running a newsletter and marketing and promoting. I think it took me eight months to realize I should probably add a signup section to my write-ups, it's easy to find me in terms of newsletter. But it still worked because at internet scale, you don't need that many people, you just need to find people that believe in you and they will go out of their way to sign up. That's a very exciting thing for everyone-

Bill: And promote you.

Mike: -and promote you. I think the word of mouth is really the more powerful part of it.

Bill: Yeah. I've had people ask me what do I do? The answer is, I had a situation that occurred in my life when my uncle died, just a tragic death. It sort of changed what I had to be able to manage. I was at a bank, and there was no way that continuing down the path that I was going to continue down if I had implemented a financial strategy that I didn't believe in. Let's say March 2020 comes and I bail, that error would have cost me more than I would have accumulated at my job. That said, I don't have like true fuck you money at all. I’ve got to figure something out. It's not as if I'm just some retired guy in Florida here. But what's nice about having the time to figure this out is, it's enabled me to reconnect with Toby. Toby gave me the platform of Value: After Hours. That sort of elevated my-- I don't know, I guess, following base or whatever. Then, I was intelligent enough to open my mind to some really smart people that I get to interact with on a day-to-day basis. That completely changed the way that I think. The way that 2020 goes for me, okay, is I get on Value: After Hours in 2019. That gets me noticed and I go out to give a presentation to a group somewhere about investing. I go out to talk to this group. I don't go and pitch myself and talk about how great I am. Instead, I talked more about my mistakes. It was not self-promotion, it was true giving. That resulted in the group liking me and somebody sending me a speech about coronavirus in February. I was long airlines and banks. By March 12th, I knew that this is going to be way bigger than people thought. So, I was out of those totally.

Then, I go to June, and I had some really tragic shit happen in my personal life, and Twitter was there to help me fight Robinhood. Now, I'm doing this podcast that people seem to like, I mean, I don't know where the world is going for me, but what I'm trying to build here is something that adds value to people's life every day, and I'm starting to see the benefits that I never thought that I'd see. For me, I just try to keep my nose to the grindstone and take an idea seriously, which is find good businesses and pay reasonable prices to buy them. Then, I'm trying to give back in whatever way I can. Your point like the fact that I could be doing this, and people would be interested in what I have to say, and I can make the connections that I've been able to make and be in some of the rooms that I've been fortunate enough to find myself in, that's incredible, man. That never would have happened in a different time. Honestly, the results have changed my life.

Mike: What a time to be alive from that perspective. I think you bring up something very important here. I think it's very easy for successful investors to backfill the mythology of what the journey is like and just-- I'm a great investor, I generate phenomenal returns, I get LPs and now I'm this rich hedge-fund manager type. The reality is, there's a real grind to a lot of these things, and the sausage isn't pretty and there's a lot of sacrifice and life happens. The more you can understand and accept that as part of your journey, the more freeing it'll be for you. When I left the industry five years ago, a lot of it had to do with-- so I started a nonprofit, probably a similar story. My uncle was very ill, and I stayed to help. I was very active in that part of my life. I really didn't care about my career at that point. I've just graduated, I'll figure it out later. Having that perspective to step up and help out and really just recognize what really matters in your life was a big deal for me. Which, honestly, probably got me my first internship, investing anyway, was sharing that sort of story, people understanding sacrifice.

Fast forward to five years ago, those nonprofit days, Relational shut down partly because Ralph Whitworth got cancer and passed. The fund shut down for various reasons, but **[unintelligible [00:56:09]** being the primary. That makes you think like, "Well, what am I doing? Am I really enjoying this? Is this something I want to do for a long time? Or, am I just chasing an incremental dollar?" There's nothing wrong with chasing dollars, if that's what you want to do, and if you want to build wealth, then more power to you, but that was definitely something that I wasn't sure about. What drove me to leave the industry-- and I joke, I literally learned software. It's the meme, cynical approach, you should learn to code. It's like, you know what, maybe I will learn to code.

Bill: Dude, I may go learn to code as a backup plan.

Mike: [laughs] I will learn to code. Wife was very supportive. She was like, "It's a stressful business, a stressful job," a death really does affect people in various ways. "Let's do it. Let's try something different." We did. With the caveat being, I was a technology investor, and this was probably 2015/2014, and that was probably as a fortuitous window to basically set your portfolio to tech and forget it, and go do something else for the next five years. I got lucky there. You're not going to have many opportunities where you could just go, "You know what? Let me go buy a little bit of that Match IPO," and a few other names, shop. You just start buying SaaS names before people realize, and marketplaces, I mean, I think I was an Etsy at six bucks a share, two at the time. Just set and forget it, not thinking about it and go try to figure out your life. It got very lucky. This wasn't a galaxy brain thing. I was in tech, these were the names that I was comfortable looking at, and I thought, I think they'll generate slightly better returns in the S&P 500, so I'm going to own them instead, go figure out my life. That's why I joke, I don't have FU money, but I have that sweet substack subscriber money, and really what it is--

Bill: The substack money, man, got that sweet substack money.

Mike: The messaging, the point is, I'm very-- and this was a decision I had to make a long time when I left the industry, regardless of what happens, are you comfortable with how things may play out? I think you have to be to a certain extent. I know we've gone through the life philosophy track here versus the investment conversation, but--

Bill: No, man, that's what these conversations are for. It's all good.

Mike: It's important to have some level of big picture context where it's like, I will say a lot of my decisions have been driven by talking to like, really much older, successful people. You talk to much older, successful people, and never-- at least the ones that seem more grounded. The ones on TV, they give much different advice. It's never do this to make more money or do that or career centric necessarily. It's always, you're not going to appreciate it, but don't be afraid to spend more time with your family or your friends in your 30s if you can. Everyone's on the hamster wheel. Don't worry, that will all-- the rat race will always be there for you, if that's what you want to do afterwards. You can't get your 30s back. You can't get that time back. What's an extra few million dollars when you're 80? I'd trade that for another year of just having like weekly conversations with my uncle, or another family member. Have that context to actually enjoy what you're doing here. We're getting very millennial, live your life, but there's a--

Bill: Yeah, but, dude, we're not really getting that millennial, because what we're not saying is like just go smoke opium and don't do anything. You and I are both grinding in our own way.

Mike: Yeah.

Bill: We did both take a risk to go outside of the traditional route. I fear-- thank God, I performed well last year because if I didn't, let's say I held banks and airlines going into last year. Now maybe I'm sitting here needing a job, all of a sudden, I tell people, I underperformed and how'd you do it? You did it owning banks and airlines? How stupid are you? That would be terrifying. What would I do in that case? I don't know. My whole world could be different. Every single day I wake up, there's part of me that feels like I'm hanging on a thread. But I'm just going to go out and do the best that I can do, and try to deserve the position that I have, be grateful for the opportunity, and try not to fuck it up to be totally honest. If I do that, I'm going to hope that enough of the people that listen to this and have gotten to know me sort of understand that I'm here giving it my all. If I do lose everything, or I need to get a job or something, I'm going to be hungry, I got small kids, I got to feed. I'm not all that worried about how hard I'm going to work. This podcast is sort of my bet on myself a little bit, and we'll see where it goes.

Mike: I think you bring up a very good point. I think this is something that regardless of what you do, and the decisions you make, the highest conviction decision in your life should be a willingness to bet on yourself. If you're not full conviction on betting on yourself, it's very hard to be full conviction on any other decision in life. That doesn't mean it's going to work out, there's a lot of risk, but 10 out of 10 times in a scenario where I need a bet on myself, I'll do it and I'll figure it out and we'll go from there. It's a very interesting time in my life. I could bet-- and I fully acknowledge, I can bet on myself, partly because I did do by side and corporate governance, Dark Arts, it's a fun branding, but that you can generate a return on investment on a risk-adjusted basis doing this stuff. Absolutely. We all have our value investing origin story, where the light bulb went off. I think, for me, what really resonated was the whole Joel Greenblatt event-driven ideas, as well as the Seth Klarman *Margin of Safety* approach.

When you read their origin stories and their investment strategies back in the day, you're almost scratching your head like, “I can't believe those opportunities were out there.” You mean the market was just giving out like these ideas just like that? It wasn't arbitraged? Obviously, there's been some arbitrage to those opportunities. That’s always stuck. Are there any nooks and crannies in the market that I can try to find the sort of like, I can't believe the market isn't properly pricing these opportunities in. I would actually say corporate governance research is probably one of the last pools I've found where this is still kind of-- literally, you find Joel Greenblatt, Seth Klarman type, arbitrage-type situations that you can't believe the market hasn't properly priced. I think there's a reason for that. There's still a lot of judgment, and you're still making certain assumptions that can't really be quantified necessarily.

There's always that. That's probably going to keep these mispricings in place. Also, the other market participants aren't really looking at it from a certain way. I always say, because of that, there's actually some really interesting investment opportunities in this space in general.

But if you're an investor, if you get one takeaway from this conversation, this lovely, wonderful meandering conversation we've had-- which I love, by the way, [crosstalk] I love this format. This is my investment advice. As an investor, if you can do corporate governance research and really get a good handle of it, the return on time of looking at a proxy and corporate governance is remarkable. You can maybe spend 30 to 60 minutes on this and develop thesis-changing insights to your process. This is literally something you can add to your existing process that doesn't disrupt everything else you do. Other people will give different recommendations on research and how to look at the world and integrate this and that. This literally, you just spend a half-hour an afternoon like reading and just capture some insight that's like, “Wait a minute. You say that you're focused on this sort of north star, and this is how you manage the business, but your long-term equity comp is tied to one-year EBITDA.” That mismatch then pushes you down the research rabbit hole, and suddenly you realize, “Oh, no. This is actually the telltale signs of potentially a very bad acquisition coming into the pipe,” which has happened, for sure.

That's always been my one takeaway is, at the end of the day, all of us are trying to forecast valuations, and that process is built around forecasting that, but it's usually around the traditional leverages, operations, customer research, data-driven stuff. I think even more importantly, if you can try to forecast and anticipate the incremental decisions that a management team and board are mulling over time, you have a massive advantage to other participants that have that whole process. That's when you get those weird windows of opportunity like HD Supply, who incidentally was spun out of Home Depot when I was involved at Home Depot. That was one of the agenda items that we did, was spin out HD Supply, which is great business. it was just this very long journey for HD Supply to clean up their portfolio. They brought on activists who are on the board, and if you actually followed the business and the divestitures over time, last year, back in November, there was just a random press release or a Bloomberg article that that Lowe's might be kicking the tires on HD Supply. There was this whole sequence of events that Lowe's quickly denied the rumor, and the stock that initially popped on the report just erased all those gains. If you're just thinking about how these board members and these executives were thinking, as far as next steps, you went, “Oh, my goodness, they actually might be running a process right now.” They actually might be selling the company.

The reason for this was the report came out in November. Before that news came out, they announced-- they sold one of the business units, and basically had a pretty big inflow of cash. They needed to do something with this cash. They had activists on the board, that had been on the board for, say, three years. you already know, three years. They're going on-- this is the backend of the project. They're trying to wrap it up. They all want to exit this situation eventually. Up to that point too, HD Supply-- now that last divestiture completely cleaned up the business portfolio, so that arguably the “really good business” was all that was left. We have this situation where you have a ton of cash, you have activists that are on the board, they're at the backend of their engagement cycle. You have a completely cleaned-up business, which arguably a lot of other strategics find potentially attractive, and I'm pretty sure a lot of Home Depot executives have on occasion mentioned that was one business that they wish they didn't have to divest, for good reason. Then you have this random Lowe's report in Bloomberg saying like, they may be doing a deal. That's actually the perfect time to consider strategic alternatives because you want to do it before you make any sort of significant capital allocation decision on that huge lump of cash that came in, [crosstalk] that pile of cash. If you're planning on doing an aggressive buyback or something else, you would want to evaluate your options.

When Lowe's quickly shot down the report, I was like-- just think of this in common sense terms, most companies don't comment on rumors. From a process perspective, just from a governance decision-making perspective, for them to immediately respond to that report, literally put out a filing, I was like, “You don't do that unless there's actually some real smoke.”

Bill: Yeah, that's right. There's got to be something there.

Mike: There's something here. And it's unlocked. It's not a premium write-up anymore, you can actually read it for yourself. My whole “thesis” was, okay, we're actually in the ninth inning of a lot of very important decisions for the activists, for the company, for the business. Now, they actually have to make a decision on this cash, and they'll probably make the announcement by December or whenever they report. We have now this 30-day window that they actually have to make a decision. Lo and behold, we get this Bloomberg article noting there may be acquisition interest. That tells me there is a very good shot that they're running a process right now and they're using-- we're getting into media news flow, which is a whole separate conversation, to negotiate in public and try to like-- even if Lowe's wasn't interested and they vigorously denied it, that news report, it's going to cause a lot of other funds and acquires just to--

Bill: Yeah, somebody else is coming.

Mike: They're going to send inbounds. I read this article. You call HD Supply, “Hey, is this true? If it is, we want to be part of the process.” You can't really connect those dots unless you spend 30 to 60 minutes thinking about corporate governance here.

Bill: You pre-merger arbed it?

Mike: Yeah. I got lucky, because I think it was three days later, they actually announced a deal. They definitely moved along very quickly. I suspect Home Depot probably saw, they cleaned up the portfolio, they had a ton of cash, and they wanted to make sure they got a deal done before they decided to make other commitments, or potentially do an acquisition. That was the other thing that maybe they would have done with cash, I don't know. That sort of thinking, that sort of, if we're in the game of forecasting valuations, I was trying to forecast decisions, and by trying to forecast those decisions, sometimes these opportunities pop up, risk-adjusted opportunities, where-- if it didn't work out, it was already trading at valuations that imply there was no process happening anyway. From an upside-downside perspective, yeah, I think this is a perfectly suitable opportunity, potentially. That's something you don't pick up on necessarily, unless you're doing the work on this sort of stuff.

Bill: Do you mind circling back to your comment on news flow?

Mike: Yeah, certainly. I'm working on a write-up around-- narrative is very popular right now, obviously, with this market, it's all narrative investing, I would say. A very underappreciated part of the activist engagement process is actually communications and narrative. What I mean is, when we get on board, when we work behind the scenes, or even when we're not on the board, one of the big levers that we actually have is communication. Most people when they think about activist investing, they think the traditional levers, whether it's operations, capital allocation, so on and so forth. Those decisions don't get instantaneously priced into the stock. I say it a lot, but good cap allocation credit in the marketplace takes time. Part of the reason it takes time is, you have to walk the walk, one, but you also have to be able to communicate your story, and basically show marked progress towards what you're saying. There's nothing more powerful than having a target saying it and then then showing progress toward that target. It definitely does drive upside from an activist investment perspective.

Within that context of communication, sometimes our projects involve strategic alternatives, sometimes involves either M&A, whether it's divesting or acquiring certain businesses. Basically, having a seat behind the scenes and seeing certain deals play out in the boardroom, and then see-- I don't know how this information gets out there. I don't know, what drives certain things, but you'd be surprised when you're sitting with board-level visibility of things going on inserting just articles and information gets out there in the press, and you're able to directly connect it to what you're going on at the board level, that was a jarring moment for me. I was like, “Holy crap. there's some real news flow.” You can say, maybe it's leaks and some bad thing, but the counter is you're negotiating in public. You're doing certain things that I don't know who's doing it. I don't know who's putting it out there. Sometimes, information gets out there that may be beneficial to their process. Maybe it gets more inbound interest, I don't know, but you go through enough of these projects, you see that news flow play out on top of knowing that how important communication and narrative is to stock valuation. Needless to say, I noticed certain headlines and certain articles, and I just read different stories much differently because of that experience, because it comes from that context of-- these sources don't come out of the blue. These publications don't just publish stuff unless the quality of the source and the relationship to the source is rock solid. This is where you get into, okay, there's a big difference between reporting a rumor from one publication to another. There's definitely a whole game within a game of who’s willing to report what, and there's obviously certain publications that are much more likely to publish what a hedge fund manager wants them to put out there in the narrative versus what the Wall Street Journal or Bloomberg is willing to put out there, as reporting institutions from a reputational perspective.

By tying in, here's a piece of information from a reputable source, who wouldn't report this unless that source had good information. Then the reaction that the other players are responding to this, their signal there, this is in the premium, but I've definitely done a lot of write-ups around the food delivery space around this media news flow, what information gets bubbled out of the blue into the Wall Street Journal or somewhere else. There was a whole full-fledged-- I mean, I did a whole tweetstorm, I think when Grubhub did the whole infamous letter that blew up the stock, and that they were going to mimic or adopt some DoorDash policies, and they were going to cut their EBITDA profitability. It was a very drastic shift in strategy, but there was a ripple effect in the industry at the time, by doing that, because it's easy in hindsight to go like DoorDash did a great job and look at the valuation now. At the time, we're talking like WeWork was dead on arrival, DoorDash probably needed to raise capital, but their last round was arguably rich at the time. This was this game within a game of trying to force different players to react and behave in certain ways that was basically expressed through communication, through media news flow.

Grubhub, they did what they did in it and it hurt their stock, but it also set in motion other reactions with other players, which in turn caused a lot of chatter around consolidation and strategic alternatives and ultimately led to rumors of Uber trying to acquire the business before Takeaway took it up. Honestly, now that we know what happened, if you actually laid out all the different articles from Wall Street Journal and Bloomberg, and all the other publications, you can see who is feeding who in this whole lead-up, in this whole landscape. It's really a fun and fascinating thing in terms of how it all played out. Literally, how DoorDash, Postmates, Uber Eats, Grubhub, Takeaway how they all reacted, incrementally how their decisions evolved based on what certain things were happening in the marketplace. It's surprising for me, I was like, “This is happening in broad daylight, and no one seems to be talking about this.” [crosstalk] This is the most amazing thing ever and no one wants to talk about it, which is, I don’t know--

Bill: What was super cool about watching you go through that is everybody else was scared from that letter. You were the one that had the open mind to be like, “No, something's going on here.” You pretty much bottom ticked that if I recall correctly, and a lot of that was through the process that you're describing right now. That's pretty cool, because your frame of reference enabled you to be creative in a way that the market was unable to be. You can make a lot of money when you see that. You're right, I don't care what the frame of reference is, it's a variant way of looking at the same situation. It's basically what made me money on Qurate.

Mike: Yeah, I think as an investor, I like to hammer this into my investor friends all the time, when they-- say there's a name that you follow closely. There's always a window of opportunity where-- and we'll talk about it, where the valuation doesn't make sense relative to what's going on in the fundamentals. There's certain reasons for it from their perspective. My feedback was always, yeah, it doesn't make sense to you, because you follow it like as close as your kids in the park. You know this thing better than everyone else. What you don't realize is you have currently a window of opportunity to make a decision in the portfolio before everyone else. That window may only be one, two, four weeks before other folks figure it out. So, you need to decide whether this is an appropriate risk-adjusted opportunity to have a little bit more conviction.

I joke that there's probably a portion of my portfolio specifically allocated for thoughtful investors I talk to who are extremely animated about names, that they literally just go, “This doesn't make sense.” You just pick up that pattern recognition of like, I can recognize a very enthusiastic investor that loves a certain stock that just can't understand the situation, and I will buy that. I will ride your coat-- I have no problem riding your coattails because I trust your judgment. Yeah, there are certain windows of opportunity, whether it's me using corporate governance and my background activist investing or anyone else and their process, where you'll have a differentiation. When you get into investing in moats and differentiation and everything else, I say if your process is really good, it will probably bubble up windows of opportunity to buy. That's all you can ask for in this market. If you're trying to outperform, if you're trying to do well, it's like I just want to make sure that my process gives me enough windows of opportunity that if I allocate it well enough that they're not all going to be winners, but that batting average will play out in a way that I will be able to do well for myself. That's all you can ask for.

Right now, this market, I'm like, there's no window of opportunity for me, for my process, on the long side.

Bill: [laughs]

Mike: If you're a subscriber to the newsletter or if you're not, really right now, I'm probably more focused on bearish signals in corporate governance. What are the decisions companies do that signal bearishness? The last couple articles are thematically around those sort of topics. If 2020 was the year of like corporate governance, long investing, 2021 maybe the year of corporate governance, short investing, even though I don't really short, but I like writing about it, nevertheless. The windows of opportunity are probably there, they're just a little bit different and outside of my typical investing wheelhouse.

Bill: Yeah, a tweet that you had sent out that I thought was super interesting was, how you said that you thought that it was more likely for management teams not to get options this year. If they think their stock is extended, they don't want the options because of the strike prices. This year, we should be looking for different forms of compensation that management teams are looking for, and maybe be aware of how that goal may be moving or the signals that they may be sending by requesting different payments.

Mike: Oh, absolutely. Just to take the opposite of that view, what happened in 2020 when the market blew up? A lot of companies shifted compensation to options. A lot of them shifted to out of the money options, which was a really bullish signal and really signaling, “Hey, this may be an opportunity to get the stock at prices that the management team was willing to take options when historically, they were performance-based heavy or RSU-based heavy.” They wanted that upside opportunity. 2020, it was a banner year for that sort of investment signaling. This year, yeah, we're probably going to see the opposite. It makes a lot of sense. Bill, you're a CEO of a company, 2020 was an awesome year, you bottom ticked it. You actually requested options with a $10 strike price. Fast forward to today, the stock’s 70 bucks a share. You're sitting pretty. But lo and behold, compensation, equity granting season’s about to happen. I get my annual grants every March, stock’s 70 bucks a share. Do I really want options at the $7 strike price if I think intrinsic is something else, that the upside just isn't there? “No, actually compensation committee, I don't want options, give me performance-based shares priced at 70 bucks a share.”

That at least, A, I'll have some metrics or hurdles, where you'll pay me out in upside if I hit my performance hurdles, and then knowing that like, “Hey, if this thing sticks at $70, over the next three years, I'll get a nice return.” That's the human nature, well-understood sort of request. When things get ahead of ourselves, management teams will try-- and boards, this isn't a bad thing. If you're a board, sometimes you have no choice but to do this, because you want to keep people incentivized. You want to keep people motivated. If you're giving them options that inevitably are flat to underwater, what happens? You're going to have to reload them down the road anyway, so you might as well just do it now, if the internal expectation is the current valuation has gotten ahead of itself. When people think of capital allocation, what do they say when the stock is overvalued? You issue shares, you issue stock, because it's good currency, you raise cash, or you do acquisitions with that cheap currency.

There's a similar philosophy with compensation. When the stock is deeply undervalued, you issue options. When the stock is overvalued, you go to more either cash or restricted or performance-based equity compositions. You almost think of compensation, the same way you think about capital allocation. There are certain decisions you're going to make depending on the valuation of the stock, whether it's your CAPEX or incremental spending, or your incremental compensation structure, it's just a natural thing to do. You'll also repurpose compensation around strategy, no different than you repurpose capital allocation around strategy. Disney, you're going over the top, you want to invest in content. Dan Loeb is probably right, maybe cut your dividend and redeploy it into this high-growth opportunity that, by the way, the markets paying top dollar for right now. If you're going to do that with the capital allocation, you're going to have to readjust your compensation structure at Disney. If your compensation structures more tied to EPS or certain ROIC metrics that don't align with this Disney Plus initiative, you have to readjust. That's probably the most intuitive way for a lot of investors to think about compensation governance, is think about the things that you'd want changed from a capital allocation perspective as an investor, and then think how does that get expressed from a compensation and governance perspective. If you're going to make changes, or if you think the stock is overvalued or undervalued, those same considerations are getting expressed in the boardroom through compensation.

Bill: Something that you had written up, and this is not to talk like bullishly or bearishly. Regeneron, when you see somebody take forward, what was it, like five years of compensation and put it in? What was it, RSUs? What did they take? Either way, they basically front-loaded all of their options for the next five years. We got to see how the stock goes, but reading the tealeaves, that's probably not too bearish, just knowing nothing else.

Mike: Right. This is not advice. In general, whenever you see a front-loaded compensation package involving several years of equity regardless of the compensation, it can be RSUs, it can be options or anything else, that's an explicit decision. That's a decision that goes outside your normal best practices, standard practice type of thinking. Right out of the gate-- and this happened at Regeneron, this happened at a lot of other situations I've written about, but also just followed over just investing in general. That sort of decision had to be discussed and debated and contemplated and put in. More often than not, if you're doing a multiyear grant like that, you're also signaling that you have a pretty bullish view on the opportunity ahead.

Now, that doesn't mean it's going to work out. There are always certain scenarios where it doesn't work out, or outcomes. You could be front-end loaded and be completely bullish on a situation and COVID-19 hits, and, oh, by the way, you're in the travel business, you're screwed on those grants. In a normalized, all-things-considered operating environment, that's a very bullish signal. Now I know this transaction is bullish, it's my job as an investor, as a sleuth, so to speak, is to figure out what is the potential reasons that Regeneron or someone else is bullish to do this transaction? Can I actually piece it together and connect? We already know the end decision. We already know the grant was the decision. Can we connect the sequence of events or information that makes this decision makes sense and what that potentially signals? That's where there's a lot of magic. When you come across a situation like that and you see it, it really helps, A, remove certain dead money situations or risks when you're a value investor. Everyone wants to wait until the catalyst is just there to get into a name to participate on the outside. It's hard to figure that out. Outside of corporate governance compensation is probably one of the few places where you can actually, literally wait, and the insiders will tell you, “Okay, now's the time to get in.” I can't predict when the catalyst is about to play out or when it's going to be, but they'll signal when the inflections in the pipeline, and there's visibility. That's how I think about that situation. You'll see this every now and then.

GE, with their CEO did a new management agreement, and he got a slug of equity as part of the renewal with, I think there was definitely price based investing hurdles, I believe, I get these comp plans all mixed up. The point is GE obviously has their challenges and the thing has been languishing and there was this dead money dynamic to certain extent as they tried to turn things around. They had accounting controversies and out of the blue, they decided to do this renewal at this particular time, with the CEO, give him this large grant. I didn't do a full write-up on it. It was a bonus throwaway comment. I was like, “Kick the tires on this one. This one's a potentially interesting,” if you're in the industrials base or are you cover GE. Lo and behold, the stock just starts ripping like a quarter after its compensation and agreement is put in place.

Bill: For those that may not follow the story, just for a little bit of background. You're talking about Larry Culp, who had a background at Danaher. One of the greatest CEOs ever following Flannery, who got axed because he was sort of moving too slowly. You've got a setup where you really do have a bombed-out equity in a story that's been really beaten up. I got caught up in GE, I think that it was around like 15 bucks a share, I was lucky to get out around $13. Anyway, I still think it's a hell of an asset base. I don't quite think it's what I thought it was at one point, but it is a good asset base in my estimation, and that's one of the best managers ever to play the game and now he's rebasing his salary at a low. Yeah, that's interesting.

Mike: Yeah, I think in my write-up, I joke how soon before the market starts calling this Danaher 2.0. To your point of you follow GE for a long time and then invested in the stock, I'm sure at some point. This is going back to spending 30, 60 minutes in corporate governance can be thesis changing where, hey, if you saw this management agreement and then you saw the structure of his equity comp, and you just connect the dots of his background, and what was implied in the stock price at the time, that was probably a very good risk-adjusted opportunity for your thoughtful GE investors to invest and get long the name that they understand or followed for a long time, and get behind the team because, again, these sort of decisions are very thought out and explicit. This isn't like part of the normal course of governance and compensation. There's a lot of reasons and specifics around why you do a grant like that at the time. And oh, by the way, if you're about to commit to a large grant at Regeneron, where the management team will not get equity for the next four to five years, you're going to want to get the stock price. You're going to want to get it right. If that team thinks the price is overvalued and this can be a languishing stock, or maybe like a declining stock, they would be the first to push back on a front-loaded arrangement. Absolutely be the first push back on front loaded. They would go, “Just give me my equity every year.”

On the other hand, if there's upside opportunity, if there is an opportunity, where they think that the markets not fully appreciating what's being built here at the company, who's actually going to bring up a front-loaded equity grant compensation structure. It's typically not the board. It's usually the management team.

Bill: Yeah, not somebody that's on a bunch of other boards doing things the normal way, they're not going to--[crosstalk]

Mike: No, it's management team going, like, “We think there's something very excited and we want to stay retained and motivated, compensation committee. Our comp consultant says this is a good way to keep us engaged. We agree, what do you think? Well, I guess we'll do our work and talk to the same compensation consultant, and they'll sign off on this structure.”

Bill: Oh, they'll agree.

Mike: They’ll agree. Then, we'll give you a front-loaded grant at these prices. It's never a comp committee board member going, like, “Things look great. Let's actually give them a front-loaded equity grant.” That's not how those grants get bubbled. It's suggested by one of the power brokers, whether it's the CEO or chairman, or someone else that's like, “All right, this is the get-paid window for you guys. When those sort of decisions happen, you can ride alongside.” I don't recommend doing this on just names blindly. I am self-aware that I do it myself, just because I'm comfortable with it. I've seen enough of these to know which scenarios I can go along in and which scenarios I'm like, “Hmm. I get the transaction, but I don't like the opportunity.” But if you follow a stock or you follow a name or industry, and you come across something like that, and you're able to blend in through mosaic theory, what you already understand about this business, and bullish signals tie into that grant, which seemed to signal the same bullishness, now you have that window of opportunity to get much bigger with much conviction before anyone else figures out what the hell is going on. That window opportunity might only be a couple weeks, might be a week, I don't know. It literally is one of those windows where it's like this is a 5% position. This was already something else I was incrementally hoping to add on to. You get that filing. Should this be a 10% position? Depending on how you approach portfolio construction, should this be one of my number one names at this point? Given this piece of--[crosstalk]

Bill: Yeah, it should potentially influence the conviction that you have in the work that you've done. Or, to your point, if it's bearish, maybe it makes you think twice about what might be missing.

Mike: Oh, or you can unload it. If the equity grant is done in a way where it's like, “Wow, this is a really bearish sort of decision, given the stock doesn't seem to indicate you should really be doing it this way, maybe I should lighten up.” I will say if you integrate corporate governance and compensation analysis well into your process, more often than not, at some point in time in the future, your portfolio, your top position will probably have been informed by that research, and you'll probably get out of certain stocks that signal bearishness before it blows up as well. You will probably drive some real incremental returns with something that you can literally spend 30 to 60 minutes on in your process when researching a stock. That's where it's like I don't know why others don't really do it. Maybe because they weren't forced to do it like I was and realized it, but it's easy to think it's boring, but you experience corporate governance research in a way where you identify an opportunity that you already like, and it drives that conviction, and it works out for you. Suddenly, you're just like, you're hooked.

If it gets really bad, you'll start reading proxy statements at midnight on a Friday, instead of being social like me, just be a complete proxy degenerate.

Bill: [laughs]

Mike: They're fun.

Bill: Right now, I'm reading proxies [crosstalk] fun.

Mike: [laughs] Was I not clear? I am having fun, but instead of reading it as just drudgery, you're reading it as far as can I anticipate the decisions that drove this? Can I anticipate the next decisions? It's almost like a narrative is forming when you read these documents that you can't really get the same narrative reading the 10-K or other things, in my opinion.

Bill: Yeah, I think that's right. One of the things that is why I'm not only comfortable with highlighting it, but also really wanted to highlight you before the rebasing season starts is, I think, not much what is it after the first 20% of your research or whatever, there really isn't that much incremental research that you're going to do that changes your mind very much. To me, this is really one of these tools in the toolbox, that should at least be a checklist item. What's going on with the comp scheme, maybe what's gone on in the past three or five years or whatever is changing. To me, it's a little negligent not to have this as a tool in your toolbox. I got to ask you also, I'll let you finish that thought, but then I've got to ask you something about reading question.

Mike: Oh, yeah, absolutely. I was about to say, it's funny, because I think the first time we met in person was, I think it was a Peter Kaufman dinner out here in LA. It was the first time I felt like a celebrity because, Bill-- I got to, Bill. [crosstalk] You're like, “You're NonGAAP.” I'm like, “What the hell?” I had a few 100 followers at the time or whatever. I was like, “Do you want an autograph? This is new to me.” I should probably get a hype house out here in LA.

Bill: [laughs] I could be your hype man. **[unintelligible [01:38:34]**

Mike: [laughs] No, it was a fun dinner. I was glad I could meet you in person for the first time because I was a big fan of what you're doing. The reason I bring it up is, Peter Kaufman, he gave me permission to do a write-up about spending a day with him, which I still need to write out. It's in my draft folder. One of his things is he likes to hand out pens to people. The pen, basically has this quote-- I actually have the pen because I take notes with it right here. Basically says, “Most geniuses, especially those who lead others, prosper not by deconstructing intricate complexities, but by exploiting unrecognized simplicities.”

Bill: Hmm. I like that Kaufman saying. Yeah, that's a heck of quote to put on a pen. Peter Kaufman is a smart dude, man. He's a good guy too.

Mike: He's a smart dude. I really enjoyed my day with them for sure, which was a surprise unto itself. I thought we'd have lunch, which was actually a Twitter invite of all things. Well, I think you've talked-- You know Rishi. Rishi is amazing, too.

Bill: Yeah, Rishi is the man.

Mike: He said if I wanted to go, I was like, “Sure, why not?” It turned into this amazing experience, but corporate governance in the context of investing for me, and I think this can very much be for any investor that spends time in it, is basically exploiting unrecognized simplicities, it really is. There's some very simple concepts in corporate governance that you can exploit that never really gets properly priced into stocks. Now, you can say, eventually the **[unintelligible [01:40:16]** will eventually arbitrage all of this. But on the other hand, this isn't really a strategy that scales for the machines necessarily. There are these opportunities as an investor on names that you're already familiar with, where if you just follow the corporate governance side of things, and you notice an influx of change in how they're doing certain things, that could be a very important signal for you as an investor. This is an opportunity for you to exploit unrecognized simplicities hiding in the proxy statements. I think that tends to resonate with a lot of folks I talk to, where it's like this isn't rocket science. This isn't hard stuff. A lot of things I write about should feel-- you read my stuff enough, it'll probably feel like hindsight analysis or this is dumb, but I don't know, the stock just doesn't price this outcome in, so check it out, guys. You'll really be able to see that play out.

Bill: Yeah. I want to make sure that you're not selling yourself short here. I think that you have identified-- You mentioned before, Greenblatt. You've identified a unique way to ferret out special situations, and it's something that not many people are taught, and that's pretty awesome.

Mike: Yeah. [chuckles] I'm pretty sure half the subscribers think I'm Nostradamus, and then the other half are just like, “I don't know what is going on here. This seems pretty obvious, but you're right. It's not priced in.” We have fun in the premium. I personally think, and I'm biased, obviously, I actually think the premium content is orders of magnitude better than the free write-ups. Partly because I get to share real time situations and it's fun. It's a puzzle.

Bill: Yeah, well, that's how it's supposed to be.

Mike: Yeah. Well, that’s how it's supposed to be, but really orders of magnitude better. There's something to be said about playing the game in real time and writing about stuff in real time and really just working those analytical muscles and seeing that play out that you can't really appreciate when you're doing a retrospective write-up. Yes, to your point, the premium should be orders of magnitude better. It's really much better for [crosstalk] what the NonGAAP does.

Bill: Yeah, everybody should pay for the premium. By the way, this episode is sponsored by NonGAAP.

[laughter]

Bill: [crosstalk] -a lot of love [audio cut] right now.

Mike: Yeah, and I appreciate the support that you and Tobias-- Tobias was the first person that asked me to go on to a podcast, which I mean at the time, I was like, “You want to talk to me?” Speaking of the one-man journey and just hanging on going like, “Oh, you want to talk to me?” Forever appreciative of you guys supporting the newsletter and making me feel a celebrity every now and then. The $2.79 check is in the mail for sure.

Bill: Thank you. You make it easy to do, man. I have no problem supporting you. What do you see going on right now in the market? Do you believe in all this gamma squeeze stuff, and these YOLO retail guys? What the hell is happening in GameStop? For those that don't know, we're recording on January 15, just in case this gets a little dated.

Mike: This goes back to thinking about investing and how I look at investing, and I invest more often than not into communities and network assets, and things of that sort, marketplaces. WallStreetBets is this just crazy world where it's just fascinating to follow. Speaking of power to the people and-- I don't know how much of a role or impact they truly are, or if it's just a self-fulfilling prophecy where they talk about it, and then a bunch of machines and actual professional investors play into that narrative and it all self-fulfills, but it does go into the whole notion of narratives and narrative investing and how, as an activist investor, it was very much a tentpole concept, fixing your communication, inserting your narrative into the stock price. That's something the big boys have been doing for a long time. You think about, was it 2008? The famous Porsche short squeeze and Volkswagen, and how that happened. Fast forward 10 years, now it's the people that can pull it off apparently, which is amazing. It feeds into this whole internet technology trend where one person can build a living-- well, I guess one post on WallStreetBets can build a massive short squeeze. What a time to be alive. What a time to think about the power of the internet to mobilize one voice to do stuff. I always look at these situations from, yeah, there is some YOLO crazy scenarios playing out, but is it that much crazier than some of the narratives and YOLO games that institutional players have played in the past. Maybe not as degenerate as-- they call themselves degenerate on WallStreetBets. But it's definitely a fascinating thing.

I did a tweet the other day where I'm like, “Okay, this, this is insane. There's a YOLO outcome really playing out here right now.” It reminded me of Tesla a few years ago in the sense of, what if everyone here on WallStreetBets just decide-- we actually whether it's for main purposes, or they actually believe in it, we want to play into the narrative that GameStop is going to attempt to be the Amazon of gaming, or whatever it may be. You stop and think, Amazon is this unstoppable force. You just can't really beat them in the traditional sense. They'll undercut you. They'll undercut you on pricing. They're a vicious competitor, vicious operator. How do you beat someone like that? When you think about Shopify, and their theme of arming the rebels, to do this sort of combat against Amazon as far as e-commerce, I'm just like whoever beats Amazon, it's probably going to look a lot like how Elon built Tesla to take on certain industries. It's going to be a cult-of-personality founder, with a rabid base that has a certain level of price and sensitivity that just almost wills certain things into existence and are willing to back things because they just believe in it. It's the whole the cult formation that helps cross the chasm. Then, you cross to the other side and suddenly you're like Tesla, you're $600 plus billion market cap, and yeah, you can slash this thing by 75%. But you know what, issuing equity at 75% pretty much locks in whatever runway Elon needs for the next few decades to do whatever vision he needs to do.

For all we know, that could happen here or somewhere else, where it's like, if you're Jeff Bezos, I'm not afraid of a visionary operator, or someone trying to build a Zappos or Diapers or Walmart. I'm definitely afraid of the cult and they believe. That's what I'm afraid of. I'm afraid of that cult personality, where it's like, this dude just went full-- Was it Cohen? People always joke he probably would be richer if he just held on to his Chewy stock instead of going all in, and he went like Apple, Wells Fargo, and now GameStop. I'm all like, he is a founder, he's done this before. The narrative almost mirrors Elon. Elon exits PayPal. He has all this cash. He just plows it into SpaceX and Tesla. Pretty sure he's pretty much living on people's couches and borrowing money for his day to day. This dude plows his Chewy games into this GameStop thing. He truly believes in this audacious, huge vision that, oh, by the way, is a narrative that he can talk about for decades and has a massive TAM, which means he'll never have that restriction as far as the numbers you run into TAM issues or, oh, yeah, the narratives done, the story is done. No, his north star is decades out. His TAM is massive. You have him who's all in, all you need to do is evangelize those first early adopters that then brings on the rest of your tribe. Now, you have this cult that just believes potentially and starts willing things into existence because maybe they do love GameStop, maybe they do love being able to go into the store and then go, “I don't want to buy my stuff from Amazon. I want to be a part of a movement. I'm a part of a movement now. I can take on Amazon for this particular vertical or category. It's actually bigger than me.” This isn't just about video games. This is now about taking on the monolith that's winning, that's taking over every city with prime. It becomes a much bigger thing to buy into.

If I'm Jeff Bezos, I'm not afraid of operators or superior unit economics or someone else. I'm afraid of the cult that wills an idea across the chiasm in some insane fashion and just gets scale and suddenly, actually, “Oh, boy, we have a problem here, boys.” In the same ways that Elon did it to the auto industry. Oh, by the way, being the Amazon of gaming, that sort of narrative, that story, that disruptive story, can you imagine if Cathie and ARK--

Bill: Oof, oof.

Mike: Embraced and bought into that narrative, that digital transformation, like GameStop. “We buy into this transformation.” Y'all, this could get pretty crazy. This could get real crazy.

Bill: [laughs] Yeah, man, [crosstalk] get the flows into ARK and then ARK’s pouring it into GameStop, and then you get the cult of personality, that would be nuts. Thing that I think that people discount too much is how real that is now. Maybe it's always been real, but it's no longer concentrated in a few people. It's super distributed. I think it can happen almost anywhere. It's bizarre, because not anyone can pull it off. You need to have some sort of attention aggregation. But I do believe that you can sort of see a bubble forming a little bit and if you just discount it, that can be a very, very potentially harmful thing to do.

Mike: I think it plays into a lot of themes that we talked about just even with substack, your journey and my journey where people rally around individuals, but they also rally around ideas. They value that sort of perspectives. I always joke the old way of thinking is you need money to drive change, to change the world. Yeah, that makes it very easy. It's the old school way of thinking things. I actually say, you don't really need money and change the world. Objectively speaking, I think NonGAAP, the newsletter, could probably cause all kinds of mayhem if I wanted to on certain governance topics. I think there's enough community support and I think FinTwit would just do it for the lulz, to be honest. I really do think we could probably put on an AdFly campaign around some topic or issue where literally, we don't own that much stock individually, but we could probably do a lot with it. It is partly, yes, I know the traditional levers to drive change as an activist. People have to believe that you're capable of doing it, but the internet has made it possible to form these tribes, these cults, these enthusiastic contributors to drive change. I know we talked about this, as far as like influencing in tech, despite having dual-class shares.

The most powerful things around governance and advocacy and driving change hasn't come from shareholders in tech. More often than not, it came from a Medium post. From an ex-employee that laid out some very important criticisms that were ignored because when you're on the rocket ship, people tolerate all sorts of monstrous and egregious behavior that you shouldn't really be tolerating. Those Medium posts then rally other folks that recognize, “Hey, I went through these sort of issues too myself. This is not acceptable.” Now, you create this coalition to drive change.

Going back to WallStreetBets, when you think about these crazy outcomes, these crazy YOLOs, I'm just like, “Yeah, it's pretty crazy. What a time to be alive. But, oh, boy, what if this is just the tip of the iceberg of how you actually compete and take on the 800-pound gorilla?” It certainly isn't just starting a business. The scariest competitors in the marketplace right now aren't companies. They're individuals that rally their tribe. Whether it's GameStop being an example, or Elon Musk, or Mr. Beast rallying his YouTube followers or someone else to start a business or Dave Portnoy rallying his users to raise money for restaurants. There is something happening out there that's fascinating that's going to give a lot of people different opportunities to enrich their own lives hopefully one day, but also the rules of the game are changing in real time and a lot of companies don't really appreciate what this may mean over the next five to 10 years. I don't think GameStop is a one -off incident. We're going to potentially see more and more of this sort of outcomes, but maybe hopefully it's more rational, but who knows? I mean, it's going to be a ride, I think, as an investor, and there will be windows of opportunity to potentially get involved on a risk-adjusted basis before everyone figures it out.

At some point, I have a write-up lined up about this, between narrative investing, writing cults, windows of opportunity tied to your micro strategy and the whole transition of being this dead money legacy business intelligence software player and the sequence of events that turned it into arguably this bitcoin darling. Actually, if you were paying attention, there was an opportunity to buy into this narrative, this story before it was even priced into the stock. Even though management literally said, “We're going to spend $250 million,” I think they literally said $250 million into alternative currencies. Literally, they were saying, “We're going to go into bitcoin,” and the stock didn't really react all that much to that information. I knew that was a narrative shift that was going to happen right off the bat. It was a very speculative position for me, but I bought into it. I think I bought in at 130 bucks or whatever, I forgot what price I bought it, but it was definitely pre-bitcoin. I'm not about to say I predicted 600 bucks, but we certainly could have recognized that shift. It plays into a lot of themes that are driving the GameStop story, that has driven the Tesla story, that drives why Dave Portnoy can raise money and why Mr. Beast can do a a pop-up burger shop to great success. These are things that are going to happen more often. We're actually still very early, and I'm not sure investors are fully comprehending what this means potentially for their portfolios and their positions, both upside and downside.

Bill: Yeah. I think that's right. I've been really grateful to be able to follow you and talk to you, and all the time as the guy that pushes my mind, really to think about what's going on, on the internet and culture and within influencers and whatnot. The other thing that's been helpful to me is being in the center of some of that. I realized the power of having a base that believes in you at the right time. I don't know, it's really wild. It's going to be interesting to watch going forward. Man, I’ve got to wrap up, because I’ve actually got to go get the kids from school, which is a shame, but I have enjoyed speaking with you. I could do it over and over again, I go longer, so I hope that you'll come back on when you’ve got something to say. In the meantime, thanks for coming on. I appreciate it.

Mike: Yeah, appreciate the time.

Bill: Indeed, man. I really like what you're doing, so please keep in touch.

Mike: Yeah. Well, hopefully, you’ve got something out of that chat. It was just fun talking about this stuff.

Bill: I got a lot out of the chat. Hopefully, somebody else got something, too.

Mike: [laughs] Well, I'll let you go get your kids. This conversation pretty much I think captures speaking of me what I find fun. It's a barbell. I love the memes, I love the community and cults and the trends on one end of the barbell. Then, on the other end, it's literally like stodgy corporate governance and compensation. But somehow, narrative fits into both of them and it makes sense to me.

Bill: I dig, man. It makes sense to me, too. All right, I’ve got to go, so we'll talk soon. Take care.

[outro]