Jeremy Raper – Credit Focused Equity
The Business Brew

Jeremy Raper stopped by The Business Brew to discuss his unique way of viewing equity markets.

Jeremy is a global investor that looks for value in obscure places. He views the world through a credit lens, which is fun for Bill since that's Bill's background.

This episode covers position sizing, illiquid microcap positioning, global investing, and more. Thank you to Jeremy for joining!

[Business Brewster theme]

Bill: Ladies and gentlemen, welcome to the Business Brew. I'm your host, Bill Brewster. I'm happy to be joined by Jeremy Raper this week. Thank you very much for stopping by. We've got some interesting things to cover. Jeremy has a perspective, it's global, and it's credit focused, and I really like reading what he writes. Part of the reason maybe because my background's in credit and credit-focused guys have a soft spot in my heart. As always, none of this is investment advice. This is not financial advice, get your own advisor. This is entertainment only, and nothing we discuss is an invitation or solicitation to buy or sell a security. But first, I'm just going to let you in on the conversation that we were having before, because we said screw it. Let's just run this thing. So-

Jeremy: Oh, yeah.

Bill: -Jeremy and I were talking about a bit of an issue that I'm going through right now, because being public about some of the stuff that I'm public about, especially some of my family stuff, is causing, I would say, strife for lack of a better term. Part of the issue, I think, is specifically with my father. I think that one thing that I have not conveyed enough in this podcast is, he and I went through a period of our life that was tough, the outcome of that has been incredible, and I have more respect for that guy than I ever had growing up and seeing how he picked himself up after an event that was devastating to him. Like, how he has put himself back together, and he's done a ton for society since and he's happy, and he's what I always wanted for my dad, and now he is that person. But it's tough, because I don't know how to do a show like this and not be authentic about who I am and what I've gone through, because I think if I'm not me, then why the hell would anybody listen? So, that's the background of what we were talking about, and we'll get to the credit stuff shortly, but y'all get to drop in on the heavy conversation first.

Jeremy: Ladies and gentlemen, the Bill Brewster Experience. Welcome aboard.

Bill: [laughs]

Jeremy: No, in all seriousness, [crosstalk] I'm really happy to be here. I think we talked offline before, but I've been a big fan of yours for quite a while and it's really exciting to see what you're building with the pod. I've consumed basically every episode you've put up since you started doing it. I think you really carved out a nice niche for yourself. I'm really glad to be a part of it as I said, and I think it has a bright future. I was just saying that there's a huge generational divide in how people view the airing of their personal problems, for want of a better word, or their personal business. Look, you and I are of a certain generation and our parents are of a certain generation and they hue to the strong silent type, the Cary Grant mold, where private business stays private, for want of a better word, family business stays private, and your and perhaps my perspective as well is more that, look, there's a happy ending to this story that should be celebrated, not hidden.

Secondly and probably more importantly, I think you would agree, is that there are lessons and optimistic notes from that resolution for a ton of other people who could benefit from hearing about it. I think that's one of the main reasons you started doing the podcast. Maybe in a different focus the investment world, but I think a big part of the reason why you've resonated so far is that genuine nature of what you're bringing to the table. So, I'm really hopeful there's a way you can reconcile that with your family as well, so you can continue doing the podcast in the way you want to do it, because I think that's really key to maintaining that connection with your audience. Yeah, I'm sure you'll figure it out. It's still early days, right?

Bill: Yeah, no doubt. I think part of the issue too is I talk about the side of my family, that is why I can pursue. I had two sides of my family that were successful back in the day. The Brewster side ran a huge construction company. Huge.

Jeremy: Okay.

Bill: I think they just grew way too fast. At the very end what happened is, they just got into too many projects, and then things started to fall apart a little bit, but they built a lot of New Jersey. I think that he feels like, I slight that person that built that business, and some of it's because I didn't know that guy and that was my dad's hero. I'm proud of that. I don't think it's a family of degenerates, and I guess sometimes when you talk about, or I do, the bad things that happened, I just think maybe I've underemphasized a lot of the great things. So, going forward, I'm going to try to in an authentic way, if the time is right to bring them up, but it's been tough, man, since that Jim O'Shaughnessy podcast dropped, and then Adam Robinson was the same week, and that was like, Thursday was a little bit of a high, and then get had some blowback associated with it, and then it was a bit of a tough weekend. I was just telling you, I played tennis with a guy that died and was brought back to life. I've been thinking about all kinds of existential things right before we got ready to record. So, this should be great.

Jeremy: It puts everything in perspective when I say you should buy this bond at 5% yield, because it's going to 4%. It really puts things--

Bill: That's right.

Jeremy: --where want to be right. [laughs]

Bill: Yeah, well, I'll tell you what, man, I really, really like how you look at the world. I have a ton of questions for you. How you can look across the globe and get comfortable, for instance. And again, folks, it's not financial advice, but you have that a Polish trash company that I think is a really interesting thesis.

Jeremy: No, awesome. Thanks.

Bill: My wife is Polish. My in-laws are Polish. They're first generation. I've been to Poland, I guess, only once. No, it was twice. I have massive affinity for Poland and Polish people. But I don't know how the hell you read a 10k like that, or whatever it is they're filing right, a 20F or whatever. How do you get comfortable with that stuff?

Jeremy: Well, look, actually I minored in ancient Polish literature at school, so I can read all the Polish classics.

Bill: Did you for real?

Jeremy: Hell, no, man.

Bill: I don't believe you. [laughs]

Jeremy: No way. No. It's a long story. [laughs] No offense. [crosstalk]

Bill: I like that. That's a good job. Well done, sir.

Jeremy: Come on. That would be great if I had, but unfortunately, I haven't read anything in Polish, and I never will.

Bill: You would be officially the most interesting man in the world living in Tokyo with your accent and a minor or major in ancient Polish literature. I would be like, "Oh, my goodness, this dude is wild."

Jeremy: Yeah, well, good thing it's-- That's why the most interesting man in the world only exists on a commercial, because no one actually reads ancient Polish and lives in Tokyo.

Bill: [laughs]

Jeremy: But no, the real question is, not how I came to this particular company or this particular market, because, look, I have a Polish investment. I'm happy to go into it. But I've invested all over the place. I guess the nexus of your-- not the nexus, but the core of your question is why am I comfortable I guess, going all over the world. Obviously, a big part of it is my particular story, your background. I've been very fortunate. I lived in Australia till I was 18, but I haven't lived there since I was 18, and I'm 36 now. So, I've spent the better part of half my life living all over the place. I went to school in the US, I lived in Tokyo, I live in Tokyo now. I lived in New York. I lived in Singapore and lived in London. So, I have been--

Bill: Wow, why so many places?

Jeremy: Well, for money, and for love. That's about it.

Bill: Yeah, okay, so where'd money take you?

Jeremy: [chuckles] Well, like I said, start at the beginning. I grew up in Sydney, lived until I was 18, graduated high school in Sydney, then went to college in the US. That was because my brother went to college in the US, and if my brother could demonstrate you can go to an American University, obviously, I have to prove that as well, right? So, there's no reason I would have gone to study in the US unless my brother made me do it, because we had a hugely competitive relationship. So, he went, so I had to go, and obviously he had a great time, and it really opened up his world. Because I went to school in the US, so the calendar is different in Australia. You graduate high school at the end of the year, because that's when summer is, right? So, summer is December/January in Australia.

Then you start university the next year in January or February. Because I knew I was going to the US, I had until next fall, so it's next September, to do something and in that period of time, I happened to go to Japan, because I'd studied Japanese a little bit in high school and I was quite interested in Japanese. I had that window of time. So, I went and lived with a Japanese family like two hours outside of Tokyo and just learnt really good Japanese. Man, had an amazing experience.

Bill: Oh, dude, that's awesome.

Jeremy: Yeah, I was super fortunate and that whole-- we talk about getting existential and how life is crazy sometimes. The whole reason I even started studying Japanese was because my dad happened to meet a Japanese teacher at a doctor's waiting room, when he was just going to the doctor for a checkup a long, long time ago, and he happened to say, "Oh, I want my son to learn Japanese" just because he's really liked this Japanese lady that he met, and I started learning Japanese. If I'd never done that, I never would have moved to Japan. I never would have met my wife. So, it's just kind of avalanche of consequences from small little things.

Bill: I got to back you up real quick.

Jeremy: Yeah, sure.

Bill: Growing up in Australia, so I backpacked through Australia, when I was-

Jeremy: Oh, you know better than me there.

Bill: -22.

Jeremy: You know better than me.

Bill: Well, I was going to ask you. When you grow up there-- because culturally there's a lot of at least tourism, right?

Jeremy: Yes.

Bill: [crosstalk] backpackers. Did you do that at when you were younger? Or, is that not really what locals do?

Jeremy: Locals-- okay. You have spring break in the US, and you go down to Cabo and get wasted?

Bill: Yes.

Jeremy: So, the Aussie equivalent of that is something called schoolies. Schoolies, in Australia, you end every word with 'ie' sound basically to make it short, it stands for school leavers. So, when you're leaving high school before you go to university, you go up to the Gold Coast, which is your Byron Bay or whatever. You go up to the Mexico equivalent-

Bill: Oh, Byron Bay is sick.

Jeremy: -and you basically get wasted and smoke as much weed as possible for like [crosstalk]

Bill: Yeah, you go to Nimbin, get you a little you bag and then you go back to Byron Bay.

Jeremy: Exactly. So, that's the extent of local tourism, I think, for most-- I'm generalizing. This is for most young Australians. Obviously, I went on some trips and went around the country, but I didn't really go bush, so to speak, or do a huge amount of exploring of my own country. As I was growing up, I went to New Zealand a few times, I went up and down the coast of my state, New South Wales, but I didn't really have a strong connection with the land, unfortunately, or a pastoral connection. You're obviously buddies with Toby, Toby Carlisle. Look, he's from a very different part of Australia. I think he grew up on a farm.

Bill: Yes, he is definitely not from Sydney. [laughs]

Jeremy: Yeah, he has a very different perspective on what it means to grow up in the bush and I think he's from a working farm. So, a very different kind of pastoral education. I grew up in Sydney. So, essentially, the suburbs of Chicago, probably not that dissimilar to-- the diversity aside being honest, the suburbs of a major American city not that dissimilar to growing up in Sydney, frankly.

Bill: Did you go to Manly Beach a lot?

Jeremy: Dude, I grew up 10 minutes from Manly. I went to Manly all the time.

Bill: Did you?

Jeremy: Yeah.

Bill: Were you a big surfer?

Jeremy: No, I was a big swimming. I was a very serious swimmer. My one claim to fame is I once raced against Ian Thorpe in a competitive race.

Bill: Wow, that's a pretty good claim to fame.

Jeremy: Yeah, I know that doesn't sound like-- Ian Thorpe-- so for anyone who's not that familiar, Ian Thorpe won gold medals at the Olympics when he was 15, and I raced in the same pool as him when he was 13, because we were in the same grade.

Bill: Wow.

Jeremy: When I was 13, 14, I was a pretty high-level swimmer for my state. I never made the national competitions or anything like that but I've managed to make --

Bill: Yeah, but Australians are legit at swimming. If you were high level in your state, you were good.

Jeremy: Well, I was high level in my state for my age. I was still many, many levels below the **[unintelligible [00:12:54]** level, which is the international superstar level or even the representing Australia level, I could never come close to that. But yeah, I was a very good school-level swimmer, and I could have swam it at college in the US, but 12 times a week in freezing weather, it's not my thing. But yeah, that was my main sport was swimming growing up.

Bill: I was friends with a lot of the swimmers at Auburn, because my buddy swam, [crosstalk] butterfly.

Jeremy: Because you like big shoulders, right? That's what I heard. [laughs]

Bill: Dude, those guys are monsters.

Jeremy: Yeah.

Bill: I'll tell you what was really emasculating is when they would get out of the pool, and all of the ones that had been to the Olympics had the tattoo either on their back or their arm or whatever, and they walked by me and I just be like, "If we were in a bar together, there's 100% chance you get the chicks and I don't."

Jeremy: That's how it goes, man. Swim is cleanup. Swim is cleanup. But no, it's funny, because when I went to college, like, all my roommates were sports players, just coincidentally. I had one roommate was on the football team, one roommate was on the lightweight crew, and one roommate was on the water polo team. I basically was drinking beer or partying, whatever, and then two, three years in the guy in the lightweight crew, who was waking up at 4 AM, going doing his crew, and I'd been telling them how good I was at swimming in high school, but I hadn't really done anything for a few years. So, he's like, “Dude, you're full of shit. I'm going to kick your ass. I don't care how good you are at swimming. Let's go to race right now.”

Now it's all technique, right? It's all technique. I don't care how fit someone is. If it's over 50 yards, of course, it might be pure speed, but dude was like, “Dude, I'm going to race you. Let's race 200 meters, 400 meters, you name the distance,” and I looked at him-- I was super out of shape by then just drinking beer and said, “You name the distance, you name the stakes, I'm going to take all your money.” So, he jumped in, within half a lap, I was ahead of him and then, I absolutely crushed him. Now, by the way, when I finally got out of the pool after a kilometer, whatever it was, I could barely breathe because I was so out of shape, but he finished 10 minutes after me.

It's just one of the things, it's like if I had been in peak fitness and I'd said to him, “Dude, I'm going to --" I'd said, “Let's go and have a rowing race.” I wouldn't have the temerity to think I could crush him. I mean, it's all technique, right?

Bill: Yeah.

Jeremy: It's just a lifetime of perfecting the strokes, how to enter and exit the water with your oar, whatever. So, it's just like anything. These are skills that you can't just-- It's not all pure fitness. A lot of, it is technique. But yeah, man, sorry. I cut you off, you were backpacking around Australia.

Bill: It’s only crazy me about swimming. Oh, well, hang on, we'll get back to my backpacking and my Nimbin stuff.

Jeremy: [laughs] Okay.

Bill: For now, the thing that amazes me about swimming is how mentally strong you have to be. Because it's just you, there's nobody else. I guess you can hear when people are screaming outside the water, when they say like, “Pull, pull,” I guess if you're like a breaststroker, but if you got your head down, and you're in freestyle, or whatever, it's just you and the guy next to you, right?

Jeremy: Totally, it's just like value investing. It either takes or it doesn't. If you have the mentality, you can look at a black line on the bottom of the pool and it's almost like a form of meditation. When I was growing up and swimming competitively, I used to always be frustrated with how boring it was, or whatever, being in the pool for two hours, no outside stimulus. These days, it's the complete opposite. It's like a sanctuary. Every time I go swimming, it's purely for relaxation and fitness. It's the only time during the day where I'm not connected, where I’m not constantly beset by pinging market prices, or phones or stimulus of some form. So, for now, it's almost a form of meditation where I can dive in the pool, literally, the only sound I hear is my own breathing, or the swishing of the water in my ears, and there's no distraction. So, then you can actually get some real thinking done.

Oftentimes, I now go to this local pool, just 20 minutes from my house and go swimming, and just up and down, up and down. I switch up the strokes or whatever, but next thing, I look up and it's been an hour and a half, and I didn't even realize. I was just going through thinking things in my mind or whatever. I'm very fortunate to have had that training for want of a better word or at least that reaction to the activity, because I see a lot of people in the pool, they go swimming, they have those special goggles with the headphone attached so they can listen to music in the pool. That is something else. I could never do that, like, a tinny music in your ear while you're underwater. That's the complete opposite of what swimming means to me now. It's really a form of escape, a form of small mental relaxation, crafted within the day.

Again, it's a very personal thing, a lot of people, sport, it's a very individual sport and for them sport is a team thing or a group thing. They want that interaction with others. In that regard, the only team interaction you really get is during the competitions when you're swimming relays, or you're cheering on your teammates, but it's a pretty isolated individual sport which makes it perfect for later in life, though.

Bill: Yeah, and like you said, for value investing, especially right now, because it's not exactly a style of investment that has a whole lot of cheerleaders.

Jeremy: Yes, and funnily enough for people like you and myself, who are working for ourselves, and working overwhelmingly by ourselves, there is some interaction what with Twitter, etc., but much of the day, we are self-reliant and dependent upon our own output to bring home the bacon. Yeah, it's similar in that way as well.

Bill: That's cool. I was a golfer, and you could talk to people, but you're out there alone. It's all about calming your brain down. I should probably get out and walk more and just unplug from everything. Lately, when I walk, I try to have an audiobook in and then I don't do either thing well, which is probably not a very good idea. So, that's my therapy.

Jeremy: See, I have you to blame, because when I'm walking now, I'm listening to a podcast. When I really should be [crosstalk].

Bill: Oh, well, thank you, I appreciate it.

Jeremy: I keep wanting to say, "Dude, that guy got that wrong. He's so wrong." I was thinking about that the other day about something, but I guess, look, we all have these kinds of reactions. That's the beauty of it, right?

Bill: Yeah, the hard thing about being on a conversational podcast platform-- I guess really-- I don't know how the other ones run, but it's tough because I don't cosign everything that everybody's saying. It's sort of what people say, I allow them to go and people can judge for themselves whether or not the person knows their shit and do their own due diligence as to whether or not they do. Sometimes, it's a little bit tough and a lot of the times, I don't really know, I'm just trying to figure it out too.

Jeremy: Totally, but, Bill, I was speaking about you. I was thinking you're wrong all the time.

Bill: Oh, that too.

Jeremy: [laughs]

Bill: No, that's fair. That's totally fair. Then you would be accurate.

Jeremy: I'm just kidding it. I'm just kidding it out.

Bill: No, that's right. Try not to talk too much, man. What am I going to say to my guests? This guestlist is crazy, dude. When I started this thing, I was like, "Maybe I can put down, I don't know, seven good episodes." I knew I had a killer opening guestlist. What I didn't expect was like, I think I was fortunate that Mike, and Dan, and Toby, opened it and really set the tone in the right way. Now, it's just on me to not fuck it up.

Jeremy: Dude, look, don't undersell yourself too much. The reason it pops like it does is there's a real skill to being able to bring out the best in people. We know that. That's well demonstrated through the history of Oprahs and Johnny Carsons. So, I think there's a real talent to letting people shine even if they are going to shine on their own. So, you definitely have that in spades.

But yeah, man, I really liked the pod with Mike, Mike Mitchell. Like, just why did you bring him out? Look, he has a somewhat similar investing philosophy to me, maybe slightly more-- rigorous is the wrong word, but his required return threshold is a lot lower than mine. I'm trying to hit a few more singles through the field. Seems like he's much more willing to let his bat line **[unintelligible [00:21:06]** shoulder, but from a mentality and an investment philosophy perspective, I like a ton of what he does. His risk management, ooh, we can talk about that, but [laughs] the only reason I said it that as having, [crosstalk], he tweeted the other day, and I was like, "Bro, you have 50% of your net worth in this dodgy Canadian microcap that owns a lumber mill that you're not even sure it can work? Like, okay, like, "Hey, you made a shitload of money. Who am I?"

Bill: Well, to be fair, his cost basis is much lower than the current price and I would argue that-- I talk to him a lot, so I'll come to his defense on this. I would not recommend anybody, unless they really know their shit, follows his current portfolio allocation as a model of what they should be doing.

Jeremy: Totally.

Bill: I do think he underplays the stuff that he knows as to why his weights are the way they are. We'll see how it all works out and I think he's looking forward to that too.

Jeremy: Oh, look, I'm a huge fan. This is not a shot at him at all. And I know where he got into it. So, I know he's let it run massively. I was just wondering it's a very difficult thing where you get in and it's 10% of your money, whatever, now, it's 45%, 50% your money, whatever it happens to be-- and this is an illiquid microcap security. It's very difficult to get your money out. So, I was trying to quiz him a little bit on how he thought about that process and he was like, "Long and strong, like the asset, like the managers."

Bill: [laughs]

Jeremy: I was like, “Oh, good. I'm glad you do, because you're along for the ride, buddy.” That's great. Like you said, he's a lot more about the asset.

Bill: Well, if you ever want to have a legit phone call with him, I can broker that because he's much more nuanced when I talk to him.

Jeremy: No, look, it's obviously, it's Twitter.

Bill: Hilarious.

Jeremy: It's Twitter, so it's going to be short and snappy. It's on the topic, because something you and I probably encounter a lot. The way we respond and talk about things on Twitter, I can be accused, for example, of being too short or too blunt, or too brusque, but it is the nature of the format, right?

Bill: Yeah.

Jeremy: You must have thousand times more increase than me, but when was the last time? I have tons of direct messages I can't get to, and I'm just another guy. For anyone with real profile out there, it must be incredibly difficult to maintain and respond courteously and promptly to all the people's inquiries, and so when he gives me a quick snappy answer that I think is, “Oh, well, dude, that's way too risky,” obviously, there's so many more levels. I'm seeing not even the tip of the iceberg, right?

Bill: Yeah.

Jeremy: Yeah, it's part and parcel of the format. It's worth remembering for not just us, for me, but for everyone, when you're interacting with someone on Twitter, there's probably a huge amount behind that, that they just either don't have the time or the format doesn't allow them to fully explain.

Bill: Yeah, and I guess it's the thing that gets-- I don't have it as much because I'm pretty grateful that I didn't have the Twitter account that I have right now when I was pitching Qurate, because I think people would have shit all over me constantly. Mike is taking some bets that are heavily skewed against where the general population of investors on Twitter tend to talk about and the assets they prefer.

Jeremy: Absolutely.

Bill: So, I suspect his inbounds, to certain things, are not as kind as maybe they could be. It's possible that maybe you caught of it the long and strong reaction now.

Jeremy: No, by the way, he was totally courteous. He was totally courteous.

Bill: Okay. [laughs]

Jeremy: I guess it does touch on an interesting point, all right, because for us "deep value guys," because what Mike basically did-- Mike is getting so much free marketing from this podcast. This is great. But what he basically did was he found this super, cheap, massively mispriced option on a Canadian-- I think it was a busted Canadian SPAC equivalent. It was a pool of cash or something run by some smart guys that didn't have an asset. He bought it at a big discount to the-- or solid discount to the cash that it had and then they turned it into this lumber mill. When they turned it into the lumber mill, I guess, two things happened. One, lumber prices were a lot lower. Lumber prices hasn't doubled or more since he put it on and what else happened? They rebranded I think they may be raised-- the inside has raised a bunch of capital alongside so that you maybe got a little bit more liquidity, got a bit more profile. Now, they're going to try and turn it into a green asset play or something.

The issue I have is-- no, issue is the wrong word, but the difficulty that we have is when you get into something that's deeply-- and this happens a lot in Japan, actually. You get into something and it's trading like a 70%, 80% discount to fair value, then one or two things happen. Part of that may have been your thesis, part of it may have been luck. I'm pretty sure he didn't underwrite the lumber price doubling in the last three, four months, but no one did, right?

Bill: Yeah, [crosstalk]

Jeremy: This is like found value. How do you negotiate what's the right price when lumber is gone from $400 to $900? You may be bullish on housing, you may be bullish on the cycle, whatever, but new lumber supply is going to come online, price is going to correct. If that happens, the value of the mill is going to go down, even if the discount is still 50%, 60%, maybe the discount could back out to 70% or whatever. In absolute terms, that's a big markdown for a large portion of your assets.

These are the of debates we always have in deep value land where it's not entirely clear there's a hard catalyst to get your money out. Now, in Mike's particular case, I think there is that hard catalyst, right?

Bill: Yeah, I think it might be a couple.

Jeremy: Exactly. He's thinking, look, they're either going to sell it to someone else, or they're going to bolt on another asset and it's going to get momentum. Whereas in Japan, that's often not the case. You're trading 70% discount to 40% discount, so you have to be a bit more active in trying to get in and out because Mr. Watanabe is not about to go and give up his golf membership and return all the capital or whatever it is. Whereas, I think it might be slightly different in his case-- these are the kinds of-- Look, it's a champagne problem. It's a champagne problem, but it really affects you--

Bill: The other thing with Mike is Mike knows Kyle for real. We can debate whether or not that's do you get endowment bias or whatever, but Mike knows the person he's betting on. One of the things that worries me about having a show like this, or a Twitter account as big as it's gotten, I'm not some hedge fund guru. I'm a dude that's trying to make it doing things I understand.

Jeremy: Right.

Bill: I own TransDigm right now, I don't understand how people are buying it. I understand that people tell me why they're buying it. I bought it on a liquidity crisis basically. People were worried that there would be a covenant that would spring, and they wouldn't make it through COVID. I figured if these guys can't make it through COVID with $4 billion of cash on the balance sheet, and no covenants right now, we’ve got some bigger problems. That was my bet. Now, you need a view on a lot of things and I'm dealing with the discomfort of holding that and Mike and I have talked and one of the things that Mike said to me, is I said, “Dude, I have a couple positions right now that I've gotten paid for my view, and they’re quality companies and I'm struggling a little bit with the Buffett and Munger sayings of like, ‘We're good at buying, we're not good at selling.’ If you buy a good company at a good price, let it run and see--" more often than not it seems to me that the guys that do that end up with pretty good track records for the right reasons, not like stocks up bro.

Jeremy: Sure.

Bill: Maybe some of that is where we are, but buying Disney in COVID, is it rich now? Yeah, it could be. There's also a lot more options that that company has and I didn't buy it directly in March, when the Disney+ numbers came out and it was $55 million or subs or whatever. I was like, “This is stupid,” because of the work that I had done on Netflix, which you and I can talk about. But I realized how big the out-year numbers can get and the thing that I like about Disney is I think it's a better mousetrap. Netflix, there's a legitimate argument to be made that there's so much burn in the ongoing spend that they require that maybe the value that people are projecting will turn out to be illusory. Disney is a freaking mousetrap that you just keep spinning off characters and with Disney+ you can test the characters. Now, it does.

Jeremy: Literally a mousetrap.

Bill: That's right.

Jeremy: I have to stop you there. Sorry. [laughs] Go on.

Bill: Yeah, so it's so it's easier for me to be like, “All right, it's rich and maybe my IRR from here sucks for a couple years,” but the other thing is, what am I going to do if I sell it?

Jeremy: Well, that's the interesting question.

Bill: I guess the answer is, go, find the next thing. No, that's what I've been dealing with.

Jeremy: That's the key and I think-- look, it was interesting the way you phrased your view of TransDigm you said. Oh, I think what did you exactly say? You said, you don't understand why people are buying it here, right?

Bill: Yeah.

Jeremy: Which if you believe that--

Bill: To which somebody would say, “Well, why do you own it?”

Jeremy: Well, that's what I'm going to say, so why do you own it, and I guess your response is because I have to then replace it. If I sell it, I take tax consequences, and I have to replace it. It sounds like you're finding it difficult to find equivalent opportunities, which is another way of saying why I look overseas, frankly. Because in that quality at a reasonable price bucket, which I guess is what TransDigm would fall into, it's extremely difficult in mid or large cap US to find anything that-- Not isn't just picked over, not isn't priced to near nosebleed, but I have no view on TransDigm, I know nothing about TransDigm other than what they basically do and what I've heard you talk about in the public sphere. But if someone like you, who obviously knows it pretty well, or very well, is arriving at that conclusion, it's a tough game then to make money in TransDigm stock. It's a very tough ticket. Well, what do you do--

Bill: Maybe I mean, there's-

Jeremy: Go on.

Bill: -I talked to some smarter people than me that know the asset better than me and maybe part of the problem is that I don't understand how good it is. What I will say is qualitatively, when you read some of the expert interviews, and you talk to people that have owned it, I think there's a very, very high probability that I underweight what that business can do. They just did a billion-dollar acquisition, and I could be really wrong on what I'm saying.

On the other hand, I am really worried that travel is actually structurally permanently impaired. I know that people will say, well, just think about till 2030 and it's like, okay, but there's a lot of things that are going to happen between now and then and there's a lot of businesses that have changed their behavior and how they operate and a lot of seat miles are business travel, and a lot of leisure like no doubt and maybe I need to go back and work through all that math to really think it through. But I just think that there's maybe more downside skew than people perceive.

Jeremy: Look, without taking a view on whether that is correct or not, I would agree that the risk reward of owning a stock like that, given all that you said, is tough. If there were no tax consequences--

Bill: Assuming, I'm right.

Jeremy: Well, assuming you're right, and that's your considered conclusion, it would sound like you should sell that stock and look for something else. Now, again, it's not purely about-- look, there's another TransDigm out there, or there's 10 other Trans, whatever it is. So, it depends on your pipeline, depends on all these other things but this is the crux of investing in the expensive markets. That's why Howard Marks says, “Look, when markets get very expensive, you have to be willing to miss out on the fun, you have to be willing to sit out and accept lower returns, on the belief that the optionality on that cash will be worth a lot if or when the correction comes, but what happens if it doesn't come for another 3, 4, 5 years?” So, look, we're all dealing with that issue in different ways.

By the way, I, obviously a fan of Buffett and Munger. I'm nowhere near the scholar that you and your compadres are of him, but one thing I really don't quite understand is this whole idea that you'd never sell anything, no matter what. There's no debating that Apple at 30 times EBITDA, or whatever it is, is a completely different proposition than 10 times EBITDA when he bought it, even if it's a better business than it was-- By the way, Apple hasn't grown revenue in years now. So, it's not really going to grow its way out of it. It might be a cash machine, but if it's just a cash machine, then you're just betting on interest rates, aren't you? The spread between free cash and that of an interest rate type return.

Bill: I guess what I would say is what's become more clear is that it's a tax on the digital economy. I think that that was underappreciated when he bought it.

Jeremy: Hmm, that's fair.

Bill: I think your point, you could say, well, now it's pretty appreciated. So, what are you doing now? I agree with you. I think that not enough people think about what he is saying-- When he talks, he's talking to a bunch of stakeholders, and he's also so big now-- if I'm feeling some of this pressure, imagine what Buffett lives with when he talks. He's got true novices that are coming in, that are looking for advice, that have bought the stock simply as a lemming. I think he owes them a duty to give them a reason to stay in the stock. I think a lot of what he says is a narrative to protect the less sophisticated shareholder in his company. I don't think he worries about the hedge fund guys. I think he'd probably agree in private. For example, the Coke investment, I suspect if that was in a small partnership that would not have stayed in his portfolio.

Jeremy: Hmm.

Bill: But I don't know that.

Jeremy: How long do you think it takes Warren to reply to his DMs? [laughs]

Bill: I don't think he replies to any DMs, but when I wrote him, man, he turned his response pretty quick.

Jeremy: I heard that. That's incredible. You got a personal response. That's amazing. Good on him. Good on you. Right then.

Bill: Well, I wrote a handwritten note and the other thing that I did with it, like I do with this podcast, is I died opened up about some personal stuff. I said to him, I was like, "I was pretty lost and then I found you guys. You guys really helped me answer some life questions that I needed to answer and I appreciate that." I told him a story that we could both relate to and he liked all that.

Jeremy: Awesome. That's great, man.

Bill: That was the secret sauce behind that letter.

Bill: And look at you now. He really set you on your way.

Bill: Yeah.

Jeremy: No, I'm serious.

Bill: I don't think he would approve of what I'm doing, man. [laughs] I think he'd be like, "You need to shut up."

Jeremy: I don't know, maybe, maybe not, but, look, you took the inspiration and it's been a positive force for you and for your life and now you're hopefully paying it forward to the broader audience or the broader world. So, that's okay, it's great. Well, we were talking about you backpacking around Australia, I was talking about Japan a little bit, then why looked at global companies --

Bill: Yeah, we're going to get it. This is going to be a long episode. I hope people don't churn off because they're like, "These guys are just talking." Because it's going to-- I find it very interesting.

Jeremy: It's part of the charm. The long, gentle lead-in before finally the pearls of wisdom come out at hour three and a half. That's how it works. [chuckles]

Bill: I think pearls of wisdom have actually already come out. I guess that what I was going to say about whether or not he would say that I should talk a little bit less, I do think that there's a part of investment-- There's a part of this game that is underappreciated, at least how he played it and I do think he spent a lot of time building a network.

Jeremy: Totally.

Bill: And a lot of time generating idea flow. That is not discussed when people talk about Buffett. There's this myth that he sat around and just read 10Ks. If you look at what Andrew Walker is building, I think I'm building something similar but different. I think Andrew's idea flow is probably a little bit better than mine, given the nature of what he's doing. But this is so scalable, that it really enables-- what I think I'm pretty good at is connecting people and I do think I'm becoming a hub for making connections. And I look forward to it. I love this shit. If you want to talk to Mike, I would love to set up a call and be like, "You guys can talk." Sometimes I'd like to tax the conversation by listening, but I love that stuff. So, this enables that and that's where he might say to me like, "You actually are playing a smarter game than you think I would give you credit for in your head."

Jeremy: Totally. I think that's right. It makes a lot of sense. Why do we even put our content out there? Why do we talk about stocks online? Why do we write? Look, why did I start writing about stocks online? There were two main motivations. This is back in 2014, 2015. One, is I wanted to demonstrate some intellectual track record, some intellectual credibility for potentially raising money in the future. So, even if I didn't have a track record as an investment manager, as a professional, no one really cares about your PA, right? Let's be honest, I would have something in the public domain independent of myself that was time stamped, verifiable from an intellectual perspective. I couldn't show you the numbers on a page because you don't care about my PA, but you can see here's the thesis, here's what happened. Boom, boom, boom. Rinse, repeat over time. Okay, yeah, he's published 50 theses. Of those, 30 have worked out, 20 haven't. Here's how he approached it. Over time, boom, boom, boom. That was reason one, credibility.

Reason two, and this is just as important, if not more important, feedback. The amount of feedback you get, the amount of pushback, criticism-- you mentioned Qurate, sure, a lot of that feedback would have been for want of a better word, negative, but even negative critique pushes you, forces you to clarify, forces you to defend, forces you to be more honest with your assumptions. There's never been a better way to-- There's never been a better forum to marshal that feedback than the internet, I guess Twitter specifically is a perfect forum for it. Like, I can put out a tweet thread on some investment that I'm looking at, it might be a semi-formed thesis, it might be a fully formed thesis, and within a week or under a week, really within a matter of days, I'll have all kinds of manner of pushback stuff that I thought I knew that I didn't know, stuff that is quite contrary to my conclusion, stuff that might be very supportive that I hadn't come across yet, just because the hive mind is so much smarter than any one of us.

So, I think you're totally right. One is the building of the network and as a result of that network is the idea of flow. But even just pure idea flow aside, it's the ability to stress test your ideas is a huge direct benefit of being in the public discussing things. And yeah, there's a cost to it. There always is, but I think the Buff Dawg would probably agree that there's a big net benefit there.

Bill: [laughs]

Jeremy: I'm only calling him the Buff dawg from now on because I like that.

Bill: Because I do.

Jeremy: Yes. That's an homage. That's a Brewster homage right there.

Bill: Well, I appreciate it. I only call him it because I don't know, it's a term of endearment. I would only give a friend a nickname and I'd like to think that maybe he'd like me if we actually met each other. So, how do you balance getting the feedback versus keeping your own view?

Jeremy: Sure. Look, I was a history major at college. When I said I studied ancient Polish history, that was only a slight lie. I mean, that was only a stretch of the truth. I actually did study history. Look, I think, what is investing at its core? Basically, what you're trying to do is you look at a bunch of different disparate bits of information and you try to assess and pull out the through lines, connect various dots, and arrive at something close to the truth. What is historical analysis? You have various sources about a certain event or series of events and you have to weigh competing bits of information. This guy said this about the past, that guy said that about the past. Well, this guy was a general, so obviously he thought that his move was the best, but that guy was a politician, so he thought that he put the general in position to make that move. Actually, no, it was because he had more troops and this guy was one of those troops. So, you basically have all these different threads, and you try and parse out over time something close to the truth. I say close to the truth, because you're never really 100% sure.

Well, what is investing? Investing is essentially assessing competing bits of information and trying to find the thread through which runs the through line that ties it all together. So, it's not a dissimilar kind of analytical process. The other part that was great about being a history major was it teaches you to write and teaches you to express yourself clearly, cogently, and coherently. I think being a good investor and being a good writer, being able to express yourself clearly go hand in hand, hand in glove. Very rare to find a good investor who cannot express himself, has strong command of the written word. There's a reason why Buffett's letters jump off the page. He's an incredible writer. In fact, the vast majority of the best investors you read, whether it be Einhorn, whether it be Loeb, these guys write incredible letters. That's not a coincidence.

So, how do I handle the criticism? I handle the criticism in a similar way to how you handle the formation of the original thesis. You assess it, you try to due diligence it, you cross check it against your own work, and if it's strong enough, you have to change your mind, I guess, is the honest answer. You're right, from a pride perspective, it's not easy and there's obviously confirmation bias, in the sense that, look, I've already put myself out here with this idea, it's going to look bad if I-- It's going to be difficult to change my mind publicly, but over time, it becomes easier. I've been wrong enough in public now. I've changed my mind in public enough times now that frankly-- it's funny to tie it back to what we're discussing about authenticity and being true to yourself on your podcast, but it applies also with our investing in that I think people appreciate when you--

Look, if you're wrong, you're wrong. If you're wrong, and you come out and say, “Look, new information has come to light. This is meaningful information. It's forced me to rethink through X, Y, Z. This is no longer a good investment, or no longer meets my criteria for investment,” whatever. On occasion, it's tough to say and to do but I think honestly, people respect that more. They understand that comes from a decent place. It's part of the big strike, no one bets a thousand. So, I think there is room publicly to say that. It's difficult to say the first few times, but-- look, I've had some absolute shockers. Since, I've been out there publicly, I was very publicly bearish Tesla, was very publicly bearish NIO, the Chinese EV company lost a lot of money being short both of those names, and I've copped to it basically on various occasions and, yeah, it's part of the game.

I wouldn't say it's easy necessarily, but I do think that at the end of the day, people understand it happens as long as you do it for the right reasons. New information comes to light. Something you thought would happen didn't happen. You are wrong in some part of the thought process and as John Maynard Keynes said, “When the facts change, change your mind.”

Bill: Change your mind.

Jeremy: Yeah.

Bill: No doubt. What did you learn from those two ideas being short and I even think Netflix might fall into the same bucket?

Jeremy: Netflix, I didn't really ever short it per se. I was just very skeptical about it.

Bill: Yeah, you didn't like it. Yeah, okay, my apologies for putting those words in your mouth.

Jeremy: Not at all.

Bill: My learnings from these 10 years, and maybe, this is one 10-year gap in history or whatever and if rates go up, maybe this whole thing changes. I will never short a founder-led company that can spin a good story ever. I just won't do it anymore. Not that I did in big size, but I messed around on Tesla, I sold some call spreads, and I had some puts and stuff and that was just like, I just got waxed on it.

Jeremy: I got waxed on it too.

Bill: Yeah.

Jeremy: Look, no, what did I learn from it? Well, look, it goes to the heart of my approach. Basically, when I tried to short things, I tried to short things with busted balance sheets. When I think there's a trigger for the credit gravity, let's say, for the unsustainable debt burden to fall on top of the equity. Obviously, it has to be a bad business, and it has to have a busted balance sheet. But more than both of those two things, you have to be trying to identify what's going to cause the house of cards to fall over. Is it a covenant breach? Is it a debt maturity wall? Typical credit-type stuff. Is it some kind of failed asset sale or some kind of failed attempt to raise money? So, both those two trades, NIO and Tesla, they were both conceived not just around this as a shitty business, this will never make any money, it was more conceived around this idea that they had a capital problem, they had a liquidity problem that was going to catalyze.

So, you remember the Tesla case, Elon was being sued by the SEC. There was a huge debate whether he could actually tap the equity market. He had a very large market cap underneath him, but it was illusory if you couldn't actually raise equity. You had that huge convert coming due with $1.5 billion or something. They didn't have a lot of cash. This is before the Model 3 ramp in China, before that. So, there was real growing concern risk. Subsequent to this, Elon has come out and said, “We were three weeks away from dying,” which is a whole other kettle of fish with regard to disclosures, but that's ancient history. So, the conceit was, they won't be able to raise money, because the SEC really wants to crack down on Elon, because he basically pulled his pants down in front of them and if that happens, and there might be a forced acceleration, and they won't be able to meet par on the bond or even if they make par on the convert, and they're going to burn a lot of cash in the next couple of--

Bill: Yeah, they’re going to have no liquidity.

Jeremy: Exactly. Now, the problem was that didn't happen. SEC backed off, they raised a bunch of money. Stock actually fell after that, if you remember, this was in early 2019, stock made its lows after they raised a boatload of new equity, which was the key dagger, because, normally, I would have just covered as soon as they were able to raise equity because it meant the SEC didn't care, and therefore, there's no credit catalyst. So, I should be out. I should be gone. But because the stock actually fell a lot after that, I still thought I was right. So, the price threw me off. The stock actually went from $250 or $300 all the way to $170 pre-split. This is all pre-splits, much, much lower than where we are. I fell into the trap of thinking that the price was lower, therefore, I was right. When actually, I was wrong, because the credit catalog was gone and think about credit is it's so reflexive. You can go from being a busted cap structure to a levered equity story very quickly. Essentially, that's what happened with NIO as well. A much more annoying-- not annoying, a much more almost illegal version like that.

Bill: I like how you put that.

Jeremy: Yeah?

Bill: I like how you put that. Yeah, that's a smart way of thinking.

Jeremy: That's often how it works. These levered equity stories on the way down, they look inevitable and then as soon as that credit refraction happens and often happens, like now, when interest rates go to zero and risk appetite is through the roof, they bounce back and they boomerang back harder, just like a bungee cord off the bottom. That's because the key overhang was this idea that the debt actually was an overhang. And if the debt is not an overhang, then it's rocket fuel on the way upright, financial leverage.

Bill: Yeah, this is this is TransDigm, coming out of March.

Jeremy: Exactly. So, it's why we should have all been long Party City and Tupperware. Dude, I shorted Tupperware bonds at par in January of 2020. I covered them at $40-- No, I didn't cover them at $40, I covered them in the 50s post March. They bottomed at $40 or something. Then they made par a year later. They made par.

Bill: Wow.

Jeremy: Obviously, the stock went from $10 to $1 to $35, the stock. Tupperware was one of the best performing stocks last year. Levered crappy equity business, everyone thought it would go under, terrible working capital, declining comps. Guess what? COVID happened, everyone started buying stuff again, all these Tupperware-type products and boomeranged back really hard. I got really lucky to get out of the way in time. The common lesson for me is if the credit catalyst is not there, you’ve got to get out of Dodge, you’ve got to get out of Dodge in a hurry. One or two times where I didn't obey that rule, I got carried out feet first.

Bill: Hmm. I was talking to Toby about this in his pod. When I think about the ideas that have been big winners, a lot of them are either on the other side of a short thesis or a credit-focused equity view, if that makes any sense. A lot like what you're doing. Like Intrepid Potash, that was a company that I knew, I had banked it previously. I knew the bankers in the bank group. I didn't know what they were doing, but I knew the players and I was like, “I know how these people think. I think they're going to get this deal done.” Sure enough, but I don't know how to have that kind of-- I've been trying to reconstruct how to have that view without actually knowing the people in the room. If I were to try to replicate the Intrepid Potash, who are the actual players? Who has the voting rights? How are they going to talk to these people? What are the incentives to the people like the banking group? Intrepid had a pension fund involved, haven't been able to get there yet.

But I think following-- one of the reasons that I was comfortable with that banking group is they were a group that is focused on food production. So, they all understand commodity cycles and they all understand when a company needs to actually be supported for the right reasons and when it needs to be supported, or doesn't need to be supported, and like, kind of needs to go to runoff. Maybe having-- if there's a credit shop that's focused on an industry vertical that has some control, maybe that would be a little bit of a hack, but I'm not sure. What do you think through that?

Jeremy: The interesting thing about credit versus equity is there's privileged information, as you well know. The equity market is sitting there waiting for the 10K's and the 10Q's' and fair disclosure rules, whereas the creditors may actually know hugely meaningful information in advance of you. The way I've tried to do it-- it's interesting segue, because one of my biggest misses in the last year actually was Tupperware. Maybe not the equity necessarily, but definitely the bonds because I knew the story well and had been following it and obviously made money on the downside. So, I should have been well positioned to make a lot of that money back on the upside. There was one key trigger and that is during the-- maybe not the height of the crisis last year, but a couple of months after, maybe it was May or May/June, I have to look it up. The company was tapped out. They had no liquidity. They had a bit of cash, but most of it was offshore. So, not to go too much into the weeds, but Tupperware has a bunch of operating subs. It's very difficult to take the money out of China. It's not that easy to take the money out of **[unintelligible [00:54:09]**. So, when they say they have X amount of cash on balance sheet, they actually had a very low amount of--[crosstalk]

Bill: Yeah, they don’t actually have that.

Jeremy: Right. They're basically dependent upon the revolving credit facility from the bankers. There's some distressed bonds that as I said, they're trading in the 40s or whatever, 40, 50 cents on the dollar, and they're doing like a year but there's no tappable liquidity other than the bankers. Now, all of a sudden, during May, June or whatever, the bankers rolled their covenants or waived their covenants, and they allowed the company to start buying back the bonds which are underneath them. So, the bonds are obviously a junior obligation subordinated to the RCL.

Bill: Yeah, so, why are they letting some liquidity go out to buy a junior obligation? That was the tell.

Jeremy: Exactly. The company did a tender for the bonds, not a full tender. They were buying back 20% of the ones. I think 20%, 25% and they tended at 50 cents or something. When the bonds were 40, they went from 40 to 50 once and no one took the tender, and I couldn't work it out. I was like, “Why the bankers--“ The numbers were all terrible. They were burning cash. It was still mid-COVID. There was nothing in the numbers that would tell you they're doing well, except the fact that the bankers are letting them tender for the bonds. Sure, enough, they did one tender to 50 whatever it was, they did another tender at 70. Next quarter comes out, not a great quarter, not a horrible quarter, but fine. Next quarter comes out, blowout quarter, cost cuts. Bonds, all of a sudden go back to 95, bonds are going to make par.

In the meantime, the stock went from $2 to $30, as I said %4 to $30, or whatever it was. So, the answer to your question is it's not entirely obvious all the time, but every now and then, there are credit tells. There are credit tells. If you can't work out why something is happening, why the lenders are doing something, they have more information than you. So, I toyed with the idea of buying some bonds in the 50s post that tender or whatever, I was like, “Ah, the numbers are so bad. It's such a shit business.” All this stuff that I already knew. “Ah, it’s so crap,” and by the way, I already had a big investment in a competing business that was doing much, much better. Do I want more Mexico exposure? Tupperware has a pretty sizable Mexican business and I decided not to pull the trigger, but that was a mistake.

Bill: [laughs] Huh. I liked that. That makes so much sense. When was in banking, when stuff goes bad, it's all liquidity. All we would do is talk about liquidity. My last year, I worked on some credits that were pretty distressed and I wish that I went to work out for a year just to get that experience of really working through weekly liquidity, but I'm also pretty glad I didn't. Yeah, so, if somebody is letting you use liquidity to tender for something junior to the obligation that you owe them-

Jeremy: It’s crazy.

Bill: -there's a pretty good chance that there's a plan there.

Jeremy: Totally. Obviously, hindsight is 20-20. Surely, I should have seen it before, but I didn't. But that was the conceit, or at least that is the conceit going forward. It's look for these little credit signals on the upside and the downside by the way, where either the senior lending group is adding or withdrawing liquidity. For US issuers, it's pretty good. Most of these things, they have to-- So, for example, if any change in covenant terms, any change in the collateral package, there almost always will be a filing and at the very least, you can sense the direction of travel from those filings.

When things are distressed enough or beaten up enough, that's all it needs. You're buying these bonds at 45 cents, or whatever they are, you're not-- By the way, these like one-year instruments. So, you're literally making an existential bet and if you can't understand why the senior creditors are extending the leash when they don't have to-- there's literally no reason why they would have to do this. It's big names on the board as well. J.P. Morgan, Wells Fargo, whoever they are, they definitely have all the information. So, you piggyback on their decision making, but I travel--[crosstalk] Sorry, go on.

Bill: Yeah, no, dude, the one thing, well, there's a lot that I take from Buffett and Munger. But the one thing that I really, really believe is rub your nose and your mistakes. To me, when I win on an investment thesis, I have a hard time decoupling even if I know that I was right. Like Qurate, I was right. I still don't know much of its luck. There's that question. But when you lose, you definitely were wrong, or when you forego an opportunity. That's why RH eats at me so bad, because I was like, I know that people are stuck at home, I know they're going to be investing in their house, I know that my kids are out here, pouring baking soda all over my floor, and just ruining shit around me. I knew it, but also there was just so much financial and operating leverage on that business that I couldn't get there, and I had misread a covenant and I think PFH on Twitter, I think, he pointed it out to me and once I realized that I was like, “All right, I'm not going to touch this thing,” but in retrospect, the rocket fuel work to the upside.

Jeremy: Yeah, it did.

Bill: Well, I asked them. I was like, “What are you going to do?” Well, I asked him, I was like, “What are you going to do?” I think they had an upcoming obligation and they said that they were going to use cash on hand, and this was late March. I was like, “You guys are going to use--" maybe it was April, who cares? End of the day, I was like, “You guys are going to sacrifice liquidity right now? That doesn't make sense to me. Why not? Try to do something other than that?” And the answer was, we have a shit ton of orders coming in and you just have no idea the cash that's about to come in. [crosstalk]

Jeremy: Let me ask you this, though.

Bill: Oh, well.

Jeremy: Let me ask you this. What did you buy instead of RH? You bought TransDigm, right?

Bill: Yeah, so it's not a huge-- Yes, I agree with you. The opportunity cost is not massive, but I don't know, man, it could have been real money.

Jeremy: Yes, it could have been real money, but the risk adjusted, or I guess the expected value returned from owning something that you know a lot better, that you due diligenced a lot more-- So, I don't know how much stock TransDigm went up, how much it went up versus RH. I know RH went up a lot. I imagine the absolute dollars would have been larger in your pocket. But the sleep-adjusted return and the pain-adjusted return from owning it-- This is essentially what I tried to do and look I missed out on Tupperware, because actually did know that company somewhat well, I'd done enough work. That's a real miss. But for a lot of this stuff where maybe you're venturing off the reservation a little bit, it's like, you're putting out fires left, right, and center in March. Dude, my account drew down 50%-- Look, I had a huge position in AerCap, aircraft financing.

Bill: Yeah, that was brutal.

Jeremy: It's very difficult to make an investment decision when one day the stock’s at $60 and literally seven sessions later, it's at $10, or whatever it was.

Bill: Yeah, that was crazy.

Jeremy: The market doesn't often force you to make investment decisions of such consequences so quickly.

Bill: Yeah. To your point, that's actually one I probably actually missed. Because that’s one that I actually have a view on. Yeah, because I have a view on the end markets in the industry and that's in the wheelhouse of things that I actually do understand from doing work on the airlines. So, that's probably a more unforgivable miss.

Jeremy: That's why I brought it up, Bill. I wanted to make you feel worse about missing.

Bill: Thank you. I appreciate that.

Jeremy: [laughs]

Bill: No, but I do think you're right and the other thing that's correct, if I'm really or when I'm honest with myself, I would not have realized all of Rreturn. There's not a chance in hell I would have actually held it the whole time.

Jeremy: That's the thing. That's always the way.

Bill: Yeah.

Jeremy: We can convince ourselves to step into the breach.

Bill: It’s easy to look back at it.

Jeremy: But I look at some of these stock performances-- let's say I'd even been smart enough or lucky enough to catch Overstock.com or Party City, or some of the cruise lines, whatever. Take some leveraged existential bet on some of these stocks surviving. I would have dumped them when they doubled or tripled. I know myself. There's no margin of safety once the EV goes back to where it was in 2019, whatever it is. They're still burning a shitload of cash. Some of these things are still-- Look, RH is a different kettle of fish and a much better business, earning huge returns.

Bill: Yeah, that’s generally speaking.

Jeremy: Generally speaking, you take these flyers on stuff, where you don't know it as well as you want to know it and you're venturing a little bit off the reservation, you're not strapped in for the 5/10x’s. You're not. You're punting out when it doubles or triples. It's a false comparison and in that sense, it's an unfair one on yourself, which is what I tell myself when I'm swimming up and down the pool anyway. [laughs]

Bill: No, I do think that's objectively correct, man. The other thing, at least in that particular security, is I grew up, my mom was an interior designer for a lot of my life and I do have a sense of what really good furniture is, and I have a sense of how it's priced and I don't know that I fully buy the story, I understand it from a branding perspective.

Jeremy: Right.

Bill: Shit, what did you say that I forgot? Crap. What did you just say?

Jeremy: Probably a lot. It's quite-- Forget about it.

Bill: Oh, I don't know. It was so smart. Damn it.

Jeremy: [laughs]

Bill: I'm really enjoying this conversation, man. The punting ana--

Jeremy: Yeah, man, it's great to chat. Long time coming but--

Bill: [crosstalk] After this, are you going let me **[unintelligible [01:03:52]** your service?

Jeremy: [laughs]

Bill: Will you let me atone for my sin?

Jeremy: Oh, no sin.

Bill: I think I just did, didn't I?

Jeremy: You did.

Bill: No, I feel badly about that. I've gone a couple times but oh, well.

Jeremy: Totally, man. Anytime, you'd like to come --[crosstalk]

Bill: [crosstalk] I appreciate that. Misses of things that we didn't actually miss. I think that that's a really important thing to be honest with yourself about and I need to make it a more consistent thing to journal, but I've been better about it and being real honest is one of those necessary components of being a good investor. If you lie to yourself a lot-- I guess people would say that I'm lying to myself a little bit on Wells Fargo-- I obviously didn't see rates going up. I didn't have a view on rates. What I did know is that there was a chance they'd go up. Sometimes, it's like, "Well, this thing was so cheap and there was a lot under the hood that I saw," and you know it, it actually is playing out the way that I thought.

Jeremy: If I was going to be your confessor, your priest, let's say, I would give you a much, much harder time about the Wells Fargo scene of admission than the RH one. Because there was no existential risk with Wells Fargo. There was no chance you could lose all your money. RH is still a levered equity stub at the time. You could have gone to zero, right?

Bill: Yeah.

Jeremy: If the world went in a different direction, you could have lost all your money. Wells Fargo, there was never any question of solvency. So, if I had to crack the whip, I'd probably crack it on Wells. But even then, I still subscribe to what Ian said on your pod a few weeks ago, when he was mentioning, “You’ve always got to take care of what's in the basket first and foremost, because that's what can really hurt you.” It's still not the thing to really flagellate yourself about, missing out on excess returns from new names during a period of extreme crisis. I still think, “Don't be too hard on yourself,” basically.

Bill: Yeah, no, I agree with that. How did you deal with the AerCap? What was going on in your mind?

Jeremy: It was crazy because I was in Japan-- Oh, at that time, I was still living in London, but we happen to be visiting Japan. My daughter was three months old. So, it was like her first international trip. I was up all night, watching my fortune get destroyed.

Bill: Oh, no.

Jeremy: This is March 7th or whatever. March 1st to March 15th [chuckles] basically, trying to figure out how he's going to get--

Bill: And you’ve got a little kid.

Jeremy: Yeah, it was stressful. But basically, in a way, I was fortunate and what I mean by that is, look, the market went so fast from pricing in normalcy to pricing in bankruptcy, that you almost didn't have time to do anything. So, if I wanted to sell and get out, there was a period of a few days to make the decision. Okay, when the stock went from $60 to $40, I doubled up, that was a big mistake obviously, in retrospect-- [crosstalk]

Bill: Yeah, I did that on Delta. I bought when Delta went out and then I switched. Thank God, but that was tough.

Jeremy: Yeah, you managed to switch and get out of Dodge in time, all power to you. That's an incredible mental flexibility, gymnastics that you could get there. But by the time AerCap went from $40 to $20, I was like, “There's no point in selling it now. The markets pricing in it 20% of book value, whatever.” It's either going to be fine and go back to double what it is at least, which is still only half of book value, or it's going to go bust, but it's just a terrible trade to sell it now. It's just terrible. Now of course, it still went from $20 to 10 $and so then I was in a position where I actually had to start liquidating other stuff to buy more AerCap, because I was so convinced at that point that it wouldn't file, that I had to start taking big losses on other parts of my book, crystallizing them to try to bring my cost basis down.

In the end I did okay on AerCap. It was a multiyear hold for a pedestrian return and a terrible Sharpe ratio on the trade. But I managed to buy enough at 12,13,14,15 bucks that when I exited in the 40s or whatever. I sold more than that above, but let's say the average was $40, average exit. Yeah, I managed to do nothing great, probably under the non-market return given I bought first started buying and in 2015, but it wasn't the out-and-out disaster that it looked like it would have was going to be in

March. It was an acceptable outcome. The key lesson though was, I was way too big in that position. It was a sizing question. Again, this is how the market gets you, because for many years this had been the most bulletproof business, literally like clockwork. They would put up a solid double-digit ROE, didn't look overly leveraged-

Bill: Shares.

Jeremy: -they buy back shares, well managed, very diversified fleet transition younger fleet, owning the right planes, management said all the right things and then bang, this comes along and blew them out of the water.

Bill: [unintelligible [01:09:02] growing.

Jeremy: No.

Bill: One of the most bankable trends in the world was travel increasing year after year after year.

Jeremy: Yeah, and then all of a sudden--

Bill: You know what got me on Delta, the switch was, there was an account actually on Twitter that I interacted with a lot. It was Fischer Black. When I said that I bought more, he had said something to the effect of the first stage of taking a loss is buying more. It was like a joke, and he said five bullet points, and I read it and I was like, "This dude's got a real good point." Then I saw the news continue to come out and I was just like, "I need to listen to this rather than just dismiss it," and that's one of the powers of Twitter. That thought, when he said that in that way-- and that's the dude that I interact with and I respect, so I was like, "All right, this makes sense."

Jeremy: Makes sense. Gavin Baker said on some pod, I think it was O'Shaughnessy's pod a while ago during-- but maybe it's during the crisis, he said during a massive risk-off environment or massive crisis, you have a very small window where first-order thinking actually works incredibly well. It's like people are running from trains in Italy, people are trying to get out of the pandemic zone. Sell everything travel, sell everything hospitality. Just sell it. But you had a very short window, a matter of days. If you didn't do it then as I said, things were already pricing in. So, by the time I was actually looking-- By the time I had got my head right and got myself in a place where I could think about selling, the stock is already pricing in bankruptcy.

I was in Tokyo at the time, and I went and had lunch with my buddy, who's a senior guide at an investment bank here and he's interacting with these hedge on clients. This is on March 10th or something. We go and have lunch. Serene, beautiful winter's day in Japan, sun's out shining. Everyone's having the cappuccinos. He comes in there and I said, "Dude, I'm getting destroyed on some of these airline trades, these aircraft trades," and he looked at me and he said, "JR, get out. Get out." He just kept on saying get out, get out. He's on the frontline, so he's seeing it. That's like, "Dude, you can keep saying that, and I know your clients are dumping everything they have, but you have to understand, if it goes bankrupt, I think I get a higher return," or whatever. Like, "You can say get out now, but if it doesn't go bankrupt, then the return--" it usually can't sell it now, I had enough conviction in some of the stuff that I didn't just dump it. So, now, six months later, every time he texts me, I just reply saying, “Get out, get out.”

Bill: [laughs]

Jeremy: And he said, “Dude, dude, the Fed changed everything. The Fed changed everything.” I was like, “Okay, man, whatever. Okay.” That's true. They did change everything, but good thing I didn't get out, because otherwise I'd be dancing on a street corner for nickels right now.

Bill: [laughs] Well, you'd have to get into swimmer shape before you did that so you could take your shirt off or something to generate some funds.

Jeremy: Maybe pennies, not nickels though.

[laughter]

Bill: Yeah, I'd have to give away money to people watch me dance on the street.

Jeremy: Make you and me both--[crosstalk]

Bill: That's why [crosstalk] weird time that was--

Jeremy: It was great, dude. It’s crazy.

Bill: Yeah, one of the things that saved me was I had talked to some people and I got a speech from somebody that reciprocated in a way that I was a little bit earlier on COVID than I otherwise would have been, and that changed quite a bit of my life.

Jeremy: The airline pivot now, the airlines pivot was nails, dude.

Bill: Yeah, no, that worked out and it's amazing how-- When I look back at it, the difference between my version of success and failure was like a knife's edge. I don't love that. But I still think that bet was the right bet to make. I still like that bet. I don't like it now, maybe I learned a little bit and maybe that's exactly why I should have retreated into it, but I didn't have that in me. I said I’m not going down this, again.

Jeremy: [laughs] Yeah, it was super high stress, max stress even owning those shares through that period. I considered punching out of stuff like AerCap a long time sooner than I did in the end just for that reason. But you know how a lot of people post this pandemic have said a variation of, “This is why you have to own antifragile businesses. This is why you can never own airlines. This is why you can never own asset -heavy businesses,” like it's some kind of obvious gospel. I always found that was hilariously misinformed. What happens if it had not been a pandemic? What happens if would have been a worldwide internet outage? What happens if they'd been just a virus, a computer virus? Now, obviously, a huge number of businesses run on the internet anyway. So, I'm not saying that airlines would have-- of course, airlines would have been screwed as well, but Amazon also would have been screwed. All these online businesses that run on the internet, if there's a worldwide virus that captures the internet, how is that any less likely than a worldwide pandemic? I don't understand. It's all resulting. People are just resulting, but it happened to be a worldwide pandemic.No business is inherently-- They look more anti-fragile just because of what we've gone through, but I'm not sure it's that easy to just wake up in the morning and say that's why I own Zillow. Well, that's why I own Wayfair. That's why I own Amazon, even the best of the best. It's way more complicated and difficult than that.

Going back to our previous point about missed opportunities, sins of omission, commission. I really try to not beat myself up too much about how I traded this or how I traded that. Obviously, you have to learn from your mistakes, but so much of the last 12 months has been exceptional in every sense. That's why I actually disagree with you on the travel point you're making before. It's very easy for us to fall into this trap of, “Ah, you know, this has changed forever. That's change forever. That's not coming back. This is not coming back.” Now, obviously, the glide path discussion is something else, but humans like to travel, man. Humans like to move around.

Bill: Yeah, no doubt.

Jeremy: I think it will come back.

Bill: Here's what I think. Yeah, and I think that maybe the nuance of the conversation is where we will agree. I don't think leisure travel is permanently impaired at all. I think leisure travel is going to boom and resume the previous trend. I am more concerned with business travel taking a permanent stepdown, because I think that there were a lot of frivolous trips that-- or they weren't frivolous, I shouldn't say that. But I think that this past year exposed that maybe there's a different way and one of the things that got me to really reframe how I was thinking about things is, I was talking to a buddy at a consulting firm and he said, “Look, man, we used to fly a team of people in to a hotel,” near wherever our engagement was. They'd be there from Monday to Friday, they'd fly back. They'd fly back the next Monday, they'd fly back Friday.” He was like, “We're still going to need to fly people in, you need people on the ground to do an engagement. You don't need that many people that many times.” So, he was saying that, if he were thinking through what the ripple effect would be, some of these hotel chains that are close to corporate parks and stuff, he's like, “I would be really, really nervous about underwriting their previous occupancy." Now, it may work.

Jeremy: Makes sense. That makes sense.

Bill: Maybe that's wrong, but I was really early in the pandemic, I was like, “Oh, we're definitely going back to the way that life is.” I guess, after a year of living this way, I do think habits are reformed.

Jeremy: Yeah. Well, the way you phrase it there is-- The point you're really making is the latency. Habits can return over time, but if they're 75% of previous business travel dependency, then all these hotel chains are screwed, because it's a fixed cost game.

Bill: Some are, not all. But some, yes.

Jeremy: Yeah.

Bill: And it's what makes me really nervous about the airlines. I'm not that nervous about AerCap, though, because I think that you can still have planes flying around with lower load factors. I'm not sure that means fewer planes, that could actually mean decreased economics. I don't know how it all works. It's going to be complicated.

Jeremy: Well, the bearish, yeah, the bearish pushback on the whole leasing debate would be over time, lower load factors are reflected in lower lease rates, because it means lower profits for the airlines, which means lower returns for the asset owners. So, it just takes a while to flow through the P&L because a lot of those leases are locked in for 7, 8, 9 years although, again, a lot of those did get renegotiated during the pandemic. So, one of the issues you do have to get your head around is how much of the recent P&L deterioration in something like an AerCap was truly one-off, actual impairments on the few crappy airlines that went out of business or whatever, and how much of it was leases getting rewritten at lower economics, because lease factors have come down aggressively during the pandemic. You can't find that number in the P&L. It's not disclosed. You have to make assumptions. You have to form your own conclusion. It's a more tricky-- and that combined with the fact that the stock has now rerated back to 80% of book value or more than that, about 80% of book value and one acquisition they announced that I wasn't a huge fan of, that's why I'm no longer in that investment.

Bill: Why didn't you like that acquisition?

Jeremy: The GECAS?

Bill: Yeah, man, [crosstalk] to be a juggernaut.

Jeremy: Is it though? What synergies can you get from managing 4000 planes that you don't get with 1000 or 1500 planes? Okay, let's break this down. So, there's a lot of history here. AerCap was founded by a few ex-executives of an organization called Guinness Peat Aviation. Guinness Peat Aviation was once the largest company in Ireland and then it blew up spectacular in the early 90s, because they essentially ordered way too many white-tailed planes. Basically, they made a bunch of orders for aircraft from the OEMs, and they didn't have committed clients for them, and the market softened for a couple years, and they blew up. It was a form of financial leverage, they blew up. The company almost went under and got rescued by GECAS. GECAS took it over and it became the world's largest aviation lease lessor and Guinness Peat essentially disappeared. Some of the execs went off to run a few other companies, one of which was AerCap, which grew over time to become what it is today.

So, it's basically like putting back Humpty-Dumpty again. I would say a few things. By the way, the stock price is truth and since I said I was not bullish on this acquisition or bearish and since I sold my shares, the stocks have gone up 10% or more, so the market's saying a different thing to what I'm saying. But basically the watchword from Aengus, Aengus Kelly, the CEO of AerCap for many, many years was, “We're going to always put shareholder returns first. We’re not going to grow for growth sake. We're going to get younger. The fleet is going to get younger and we're also going to have less reliance on wide bodies.” Over time, they've also shrunk as a percentage of their existing fleet, the order book has kind of shrunk. So, it's quite a different entity to something like Air Lease where the order book versus the actual fleet is very, very large. So, there's a committed growth, as long as those orders actually turn into revenues when the planes get delivered.

Now, with this GECAS transaction, they violated a few of those precepts in not great ways. First of all, they're diversifying into other areas of the business that frankly GECAS never made money in and AerCap has no expertise. They're getting into helicopters, they're getting into freighters, two very different markets. Look, they're not big parts of the asset pool, so it's not the core of the argument, but I think it's more **[unintelligible [01:21:50]** and diversification. They are getting older. The fleet's getting meaningfully older. It's getting slightly more levered, and the wide-body concentration is going down initially, because though GECAS’ fleet is actually okay, but over time, the wide-body order book is actually bigger. So, I think over time, the wide-body percentage will actually go up a bit as well.

More than that, though, it's a question of opportunity costs. Essentially, they spent all this time in many years going from four and a half, five times levered post acquiring ILFC which they bought from AIG in an excellent transaction in 2013. They spent many years decreasing the leverage and improving the fleet quality and got down to say two and a half times net levered, that debt to equity basis, and now they're going up to 3.2, 3.3 times to get a bigger fleet of somewhat equivalent, maybe worse quality, older, take on a lot more risk, when instead, they could have just levered up and bought back their own stock, essentially.

It's more of an opportunity cost question, why didn't they just go to 3.3 times leverage and buy back a third of their shares at 20% discount the book? Which is what they would have done over the last four or five years, that would have been the standard response. Aengus would probably say, “Look, GECAS is depreciating their planes much more aggressively than us. Therefore, we think the true book value is actually higher. Their depreciation schedules are actually aggressive, we actually think we're getting these assets. There's a billion or whatever, $2 billion of hidden value,” which, that's another interesting question, because on previous conference calls, Aengus has always said that AerCap’s depreciation schedules were the most aggressive in the industry. If that was true, how could GECAS’ be so much more aggressive than yours?

I’m not saying he's wrong, he might not be wrong now, but he definitely then wasn't telling the truth in previous calls, which questions the whole rationale. So, my sense is he wants to get bigger because he wants to put the Guinness Peat empire back together. My sense is he thinks this is a onetime swing, like he's not going to get another chance to buy this. And he's taking a big bet on the cycle, which is fine. But it seems like-- I don't know. It's just not-- the opportunity cost wise, I don't love it and the key reason is, he didn't pay in cash, he's paying largely in stock. So, the best-case outcome is now Larry Culp owns half your equity was almost like a merger. So, GE is going to own 46% of the stock. This is not the world's most liquid stock, like, if they try to get out, it's going to be a cap on the equity for years. Years and years.

At the end of the day, look, I got all hot under the collar and shout all over the deal on Twitter. That was probably too aggressive. It's not the worst deal in the world, but just opportunity cost wise, there's better places in my capital now. If the deal works out, great. I'm sure I'll look silly, that's fine. But I don't think I'm missing a huge amount by getting out now basically.

Bill: How much bigger are they going to be the Air Lease now? Quite a bit, right?

Jeremy: Yeah, Air Lease was already not large, though. Air Lease only has 300 planes. So, they had a big order book, but they only have 300 planes in the fleet. The third biggest was, I think, one of HNA, Avalon, another Irish company that basically came out of the Guinness Peat collapse, all these are Irish companies. For tax reasons, a lot of these businesses got found in Ireland back in the day, because they have favorable tax treatment. But if this thing goes through, they'll have 2500 planes, Air Lease is only 300. Even Avalon is-- not 100,000. I don't know the exact number.

What did the pandemic tell us? Being bigger was actually a problem, because it meant that you were forced to lend to everyone. The other thing is AerCap always talked a lot about their great underwriting culture, and how good their risk management was. Well, guess what, Air Lease smacked the pants off them during the pandemic. Air Lease made money last year. Made a lot of money. Air Lease put up a close to a 10% ROE, maybe not 10%, maybe 7%, 8%. Whatever, they made money. They didn't take any massive losses on any discrete exposures. Meanwhile, AerCap took a bath, an absolute bath. They had 5% of their fleet out to Norwegian. So, they got equitized on a bunch of that. All their brand new 787 Dreamliners, most of them were out to Norwegian. Guess what, Norwegian went under and then they turned around and re-leased most of them to the successor entity as well. They took a bath on Virgin. They took a bath on a couple other clients that went under. Of course, they're too big, they have to lend to everyone. So, the bigger you get, you're forced to lend to everyone. So, yeah, I don't really buy this-- Obviously, there's a **[unintelligible [01:26:45]** synergy argument, but it's pretty small.

The story, maybe the story is still there. It's just a lot messier now. The valuation is not what it was. They didn't buy, when they bought ILFC from AIG, they paid 55 cents on the dollar. And their stock was a lot more expensive as well. At the time, their stock trade at one and a half times book value. So, when they were paying for ILFC, paying in stock made a lot of sense. Now they struck this GE deal, they gave up 46% of the proforma equity, but their own stock's trading at 75%, 80% of book value. They paid a higher multiple of book. So, the math is not as great. I don't know.

Bill: I think it's a thoughtful disagreement.

Jeremy: Yeah, totally.

Bill: By the way, one of the reasons that I did not buy AerCap when people were saying, “You should buy AerCap,” I was like, “I don't know that industry well enough,” and you are completely schooling me on why I didn't.

Jeremy: I'm sure I got a lot wrong. Obviously, the markets telling me I'm wrong every day, so but yeah, it's an interesting [crosstalk]

Bill: When I saw the deal, I wondered if an entity that large could get incremental purchasing synergies. When you're taking out GE, it's not as competitive, like, do you become the buyer that Boeing and Airbus need to go to, because the airlines now have more debt, so, they're probably going to need to lease planes. I don't know, that's how my mind was working.

Jeremy: That's a sexy story and I wish it worked that way, but the reality is Southwest Airlines when they order 50 planes gets the same price or better than AerCap when they order 200 planes. Because the name brand airlines-- Maybe Southwest never orders directly from the OEMs again. Maybe there is a business model change going through?

Bill: No, they will.

Jeremy: Yeah, Southwest is fine, but maybe some of these other ones that live--

Bill: Ryanair will too, right?

Jeremy: Yeah, Ryanair will. That's the problem. They cannot be seen to give the cheapest prices to pure financial buyers. The actual operators will always get just as good prices. Look, if the actual operators are too levered and can't go direct to the OEMs over time, maybe that change is at the margin, but the whole purchasing thing, it's not there in the numbers.

Bill: Well, then what you're saying is you have a scenario where you're actually forced to lend to the less creditworthy airlines, because the really strong ones are always going to be able to go and flex their muscle with the OEMs.

Jeremy: Totally.

Bill: Now, we just talked about Southwest, Ryanair, I'm sure-

Jeremy: Yeah, exactly.

Bill: -that whole Indigo fleet probably goes direct, like, Wizz and all of them. Huh, that's interesting.

Jeremy: Yeah.

Bill: Look at that. So, how the hell did you like Air Wisconsin, man?

Jeremy: Ah, you've been following that. Okay, so--

Bill: Well, yeah.

Jeremy: First of all, none of this is investment advice. [giggles] This is an extremely diligent--

Bill: Yeah, well, you also liked it way lower, right?

Jeremy: Yeah.

Bill: If I recall correctly.

Jeremy: Exactly. I liked it. Under 50 cents, 45 cents, something like that. Stocks at a buck I think 95 cents--

Bill: 90 cents or so. Yeah.

Jeremy: 90 cents, 95 cents. This is a dark, almost a dark stock. Historically, it was a dark stock. If anyone who wants to follow along HRBR, so, the name of the company is Harbor Diversified, which is a legacy that it used to be some biotech company, failed biotech entity and then all of a sudden, they went dark for a number of years and then they popped up in the first filing they made, it turned out they bought Air Wisconsin, was literally what happened like a year ago, maybe 18 months ago, they bought Air Wisconsin.

Bill: It’s wild. Good for you.

Jeremy: Which is crazy, and the only reason they started making SEC filings again is there was enough transactions in their dock stock, that they went over the minimum number of shareholders, which, I think, is 300 shareholders of record or something, you'd have to start filing again and it's pretty clear, they didn't want to file again, because they've been late on basically every filing they've made since then and they give you very little detail. But essentially, the thesis is it's a very simple one. This is a regional carrier for United. They operate as United Express on a capacity purchase basis. So, think of it like Mesa Air is a good comp. Basically, the regional airline model, theoretically, it's a lot better than the actual mainline model, because they are contracted out and they get paid a fixed amount per-- They get paid a fixed amount no matter what. If they don't fly any flights, they still get a certain minimum amount. So, that's why their revenue was only down like 55% last year, instead of down 90% whatever it is. So, they get certain minimums and then they also obviously get paid based on block hours, a number of departures and stage length, whatever. Basically, they just operate the plane-- they either own the planes or lease the planes, they operate it, but almost all the fuel costs essentially all paid through on a pass-through basis by United in this case.

So, you take a lot of risk with regard to the capacity purchase agreement. You take the risk that they're still going to be contracted when this contract comes up for renewal going forward. So, that's the key risk in this situation, but in the meantime, they actually generated cash last year. If you strip out all the government assistance, if you strip out all the one timers and the working capital changes, they actually generated $10 million of free cash on an enterprise value that until recently was like $15 million. Now, why does this opportunity exist? It exists because they are almost dark stock with no coverage, no liquidity. It's a controlled entity. Half the float is owned by a couple of guys. I don't know a huge amount about to be honest with you. It's not listed-- I mean, it's listed OTC. So, this is not really investable for the vast majority of professionals, but on my numbers, I think it trades at one times free cash flow normalized-- two times free cash flow normalize.

Yeah, other than the obvious risks, which I've highlighted, you have a fear on risks regarding the capacity purchase agreement. So, basically, that runs out in 2023. The key issue is will United extend them or not? That's risk number one, which is probably front and center. Now, I'm pretty relaxed about that because I guess for a few reasons. One, they recently appointed a CFO, who came from United. He worked at United for the last 15 years. He was appointed after they renegotiated the agreement last October. So, they renegotiated the agreement last October to provide more flexibility for United, but they had the option to basically tear it up during the pandemic and they didn’t. They did tear it up with another regional carrier, SunExpress I think. I can look up the name. Basically, they let a couple go during the pandemic and they didn't let Air Wisconsin go. So, if they weren't going to let them go during the pandemic, why would they let them go now? And then, also you have this United lifer coming on board as CFO after the renegotiation. So, why would he join-- Yeah, go on.

Bill: I'm just going to push back just a little bit.

Jeremy: Sure.

Bill: Scott Kirby, I would almost prefer if he knew Scott Kirby from his American days. Because Scott Kirby, the new CEO, came from American. Scott Kirby, that dude had an impressive, impressive COVID management streak. I didn't know if he was the real deal. I knew he had a huge reputation, but I didn't know if it was warranted, and that guy killed COVID from a management perspective. It was pretty incredible to watch. So, that's the only **[unintelligible [01:34:06]** thing, but why would he really care? I don't know. If they're doing a good job and they're on-time arrivals are doing what they're supposed to do, and they're feeding the hub in the way that they're supposed to feed the hub, then they'll be fine.

Jeremy: You hope so. There's no slam dunk. There's no done deals here. The issue is Delta killed their CRJ fleet. They basically said they're going to get phased out. So, if United goes the same way, this could easily get phased out. Reading some of the mosaic, I don't think it happens in 2023. These planes roll [crosstalk] Yeah, Delta's [crosstalk]

Bill: Are they going to put everybody on the A220s? Do you know?

Jeremy: I don't know if they're A220s or even something slightly larger. I’ll have to read into that. But we'll see what happens. The key part of the conceit is you're paying nothing for the go forward business. You're buying the business at half of book value today. Now all of the assets, obviously, the underappreciated value of the planes. So, what they did during COVID was quite interesting. They basically used to have most of the fleet leased, so they basically bought all the planes that hadn't leased, they bought them in house. And the leases were somewhat onerous. If you look at the P&L, the leases were pretty expensive. So, they bought them in house and the depreciation number is what it is, so there's a huge amount of cash created from the difference between depreciation and CapEx. They're not spending to replace the plane assets. They're just letting them age, they're letting the fleet age and the fleet is very, very old. Not only that, they also took a big writeoff when they brought the balance of the fleet in house pre-COVID at the end of 2019 basically. Now, if you look at the P&L, they spent $20 million on CapEx in 2019. They spent $9 million last year, which is probably a bare bones number. Maybe they've normalized numbers like $12, $13 million, but they're generating $50 million. I think they’re generating $45, $50 million in EBITDA with an R, so pre-rents, but because rents are going to almost zero, because they in house the fleet. That's the real number. So, $50 million of EBITDA, or let's say 10 to 15 in CapEx, they’ve still got some NOLs, interest is small, they have no net debt. They do have some gross debt, but essentially, they have no net debt. It's generating a bunch of cash and it’s generating, I think, $30 to $35 million of free cash. And the EV, when I put on the trade was less than that. Now, stock’s gone up, right?

Bill: Yeah.

Jeremy: You are taking risk that they're going to have a going concern business after 2023 and obviously, they have to replace the fleet at some point. But basically, what I think management is doing is they're running it for cash. If or when they get clarity on the capacity purchase agreement, which runs out in 2023, but United has the option to extend it for another two to five years, coincidentally, the fleet can be run until it's 25 years old, fleet’s 18 years old. I think they probably have five to seven years, in which case they could really return-- I think they could return $30 to $40 million cash a year. By the way, that's assuming it goes back to pre-COVID levels if we do see this boom in travel which I expect, and most of this should be visiting friends or relatives, should be leisure related, given it's a regional. There's going to be some business traveling there, of course. They don't disclose how much, but if you look at, say, Frontier Airlines disclosures or Sun Country is another regional carrier, a lot of it is leisure related. You could have this purple patch for a couple of years that I think could be very interesting.

The other interesting thing was, they took a bunch of money from the government, obviously, as part of the CARES Act to tide them over. Some of that is a PPP loan that's going to get forgiven. So, that's free money. But what's interesting is even though they took a bunch of money in the CARES Act, they instituted in March, so literally few weeks ago, a buyback program for their shares, where they can buy a million dollars of stock a month. Million dollars of stock a month for a company with like a $50 million market cap is a shitload of stock.

Bill: [laughs] I think that's a technical term.

Jeremy: Yeah, a crapload of stock. By the way, I don't think they can even buy shares whilst-- according to the CARES Act, they're prohibited from paying dividends or buying in any security of the company until September this year. So, there's no reason to institute the stock buyback, unless you think your stock is wildly undervalued, and they can't even execute on it for four or five months. But I guess they wanted it in there ready to roll and no one really covers the company. So, maybe they think it stays cheap enough to hoover up some shares later in the year. I don't know, but again, downside/upside, I'm paying one times free cash flow.

Bill: Yeah, one, I think it's interesting to hear you talk about this. Two, I would love to know if anybody knows the people that are actually behind this thing.

Jeremy: Yes.

Bill: Because when you see stuff like that, and they clearly seem they don't want to file, this could be one of those that you could partner with somebody that's trying to make a lot of money that wasn't trying to get found out or something like that.

Jeremy: Totally right. I wish I had more insights into the actors. Honestly, that's never really been my strong suit. As an investor, I've never really had a huge-- not ability, but I've never really tried to focus on the jockey side so much. I'm not sure why actually--

Bill: I’m not doing that stuff.

Jeremy: Yeah, I know. I can tell from the way you talk about investments. You're much more focused on the guys managing the businesses. I think maybe it's a personality trait or something. For me, I've always found-- I really try to let the numbers do the talking and then trust my own ability to analyze the business. I think the reason for that is honestly, because I had vast majority of my training in Japan, and you get in the room with executives, and it's doesn't matter what they say. It's basically lip service, they're just paying lip service to you, they don't-- So, that could be cultural that could be part of my training is that-- the Japanese, the typical Japanese executive just does not care about shareholders. When he speaks, it doesn't necessarily mean a huge amount and therefore, if you pay too much weight to what the manager of the business says and/or what he thinks he might do, you're actually looking at the noise, not the signal. So, maybe I'm biased too much from that part of my background, but that's the way I've gone about it. I've really tried to do the business analysis and let the numbers do the talking, as opposed to betting on the jockey to do the right thing. Of course, in situations like this, you're right. This is like a Mike Mitchell-type trade, right?

Bill: Yes. [crosstalk]

Jeremy: You can connect me with Mike. He can talk to the managers. He can understand it and then I can triple my position. [chuckles]

Bill: Yeah, well, but that's part of what we were talking about before about the benefit of the pod.

Jeremy: Yeah.

Bill: One of the things that I have gotten from it is, I was a little bit too obsessed with making it a business in the beginning. But the thing that I do ask the listeners for real is, if you heard Jeremy say anything, and you think that there's information that can help him, I would like you to contact him. I happen to find this idea kind of intriguing. Please contact me as well. Let's have a phone call, especially if you know something. What I have found is that there are people that listen to this that work in these industries that want to reciprocate the knowledge. That's my ask right now. Help me create a scuttlebutt machine. That's a lot of this bet right now and it's been really fun. I've met a lot of interesting people through it, and I do think that I've been able to piece together some stuff that I otherwise would not.

Jeremy: Totally. I'm sure it will continue to happen and we will pay for your next beach house in-- where are you, in Palm Beach? [laughs]

Jeremy: I'm in an undisclosed location.

Jeremy: Sorry, from the central command bunker somewhere off the East Coast, United States. We'll pay for that bunker-

Bill: That's right.

Jeremy: -through Air Wisconsin.

Bill: The next one. What's this training that you mentioned that you were trained in Japan? What did you do?

Jeremy: Well, sorry, training is a generous term. I started my career in finance in Tokyo. So, my education, let's say, training is probably the wrong way. My education as a professional investor or professional market participant was formed through my first four years of my career, which were in Japan, so obviously, whatever happened in that time was really formative for me. It's the reason why I use the approach that I use today, this credit-based approach, was because I started on basically, the cross-asset sales desk at Goldman in Tokyo, which essentially meant selling hedge funds everything from credit derivatives, CDs, to distress debt, distress credit, to convertible bonds, equity options, swaps. So, it's basically selling anything funky that retail couldn't trade. The way I described it later on to my buddies was all that stuff that blew up the world in 2008, that's the stuff we were trading.

Bill: I was the dealer.

Jeremy: Yeah, well, I was a salesperson. I was holding their hands while they were blowing themselves up, basically. But now, I'm being facetious. These are all professional clients, professional investors, they knew what they were doing, but essentially, as a cross product asset sales role, the really interesting thing about Japan at that time-- you think about Japan, as you think about the world now, and you obviously know that QE and zero interest rates worldwide, it seems like it's a global phenomenon. What most people don't realize is that Japan has been in a zero-interest rate environment since basically the mid-1990s. So, we've had QE since the crisis, and Europe's had QE since 20-- when did Draghi say whatever it takes, five or six years, Japan's had zero rates for a generation. So, if you think about what that's done to risk taking globally, or at least the credit environment. It's interesting that Japan has not really evolved along those lines. It's really interesting that basically, when I started my career in Japan, you'd notice this pattern over and over again with some of these troubled companies that we were trafficking where basically, they were crappy businesses. They built up a ton of leverage. Optically, they were offering structurally screwed industries like consumer electronics, industrials, or steels, where they were getting secularly competed out by things like Chinese or Korean entrants. So, there was a strong structural argument why they were incapacitated, typical zombie company type argument, and they had boatloads of leverage. Then, all of a sudden you'd look at the bonds, the bonds or the bank debt or whatever it may be trading at like 3% yield or 2% yield. There's a running joke in Japan that a distressed credit is one that trades wider than 5%. [laughs]

Bill: No.

Jeremy: Today, it might be like 3%. You know Sharp, the consumer electronics company?

Bill: Yeah.

Jeremy: Yeah, so, obviously, a huge corporation. I mean, they make TVs, kettles, fax machines, they make LCD screens. Actually, their main business is making the panels that go into TVs, or was for a long time. So, there was a very famous situation where one day the Sharp bonds were trading at 95 cents on the dollar and the company was in deep distress and then the very next day, they were trading at 30 cents on the dollar. They literally fell 70 cents overnight, which is very strange when you think about a credit continuum. Normally, distress is priced gradually over time. But there's a number of technical functions in the market where the Japanese credit market has evolved to a point where there's no high yield market. This is investment grade credit and then there's distressed. There's no natural buyer of a bond that yields 5%, 7%, 10%. There is a buyer or something trading at 25 cents on the dollar and that's an offshore hedge fund looking for recovery. But there's no natural buyer of anything between 4% yield and 40% yield. So, when Sharpe actually hit the wall, or almost hit the wall, and got deleted from all these bond indices, the number of bond index, whatever, and it became completely unownable by domestic fixed income, the bonds was trading at the time, literally they went from 90 cents to 30 cents.

Bill: Wow.

Jeremy: So, it's pretty interesting. But I'm waffling a little bit, what I really wanted to say was and this is the key for how I formed my credit-based view, or my credit-based equity view was that doesn't matter the industry you looked at whether it was airlines, consumer electronics, semiconductors, autos, auto parts, industrials. It doesn't matter. The pattern in Japan was always the same and it was this. The business would get into trouble, over time, it would deteriorate. It would steadily build up more and more leverage, and it would look horribly over levered on a debt to EBITDA basis. So, the debt to earnings looked horrible. But the debt to assets actually didn't look that bad. Because earnings for a lot of these companies were structurally very low, the banks invariably looked at debt on an asset basis. So, the banks would carry these companies for years and years and years, and that bred a huge amount of complacency in the equity market, as well as the fixed income market. So, all the sell side analysts would publish these notes on these crappy industrial companies with 7, 8, 9 turns of leverage saying, “Oh, it's fine. The banks will just roll.” And of course, the banks did roll for a number of years until they didn't.

And what happened when the banks didn't roll was really interesting was because there was so much excess liquidity in the market, and there'd be so much complacency built up that a lot of these companies, invariably, they still had solid market caps. They still had decent equity cushions. Basically, what happened is the banks would say, “Okay, we don't care that you're seven times levered, eight times levered, nine times levered on a debt to EBITDA basis,” but when you go below 20% equity ratio, when your equity to your total assets falls below certain thresholds, that's when we get worried. Because the lesson from the banks from the crisis was, if they weren't confident on the asset value, they could take big losses, didn't really matter what the run rate earnings were.

So, what that meant is, if you're a solid market participant, if you're an active market participant, you could just keep a watch list of these companies, and as soon as debt to assets or equity ratio, so as soon as equity ratio fell below 20%, it meant a huge equity offering was almost inevitable. And if equity ratio got below 10% or in the 10 to 15% range, it meant a hugely dilutive equity offering, often an equity kneecapping type offering was coming down the pike. Once you recognize that pattern, that was the way the Japanese banks operated, you could place your bets accordingly. So, that's what our transition to the buy side, but essentially that's what we did. We just look for these companies over and over across industries. Sharp did it two or three times. Hitachi did it a couple times. Panasonic did it once or twice. Toshiba did it two or three times. There was fraud involved as well. That was my first massive win as a private investor, was being shown a bunch of Toshiba. Kind of an idiosyncratic story but they had huge issues. Japan Display, another LCD company. Pioneer, the electronics company two or three times. Nippon Sheet Glass. Nissan did it as well. The list goes on and there's a few-- Mazda, the car manufacturer, literally ANA, the airline.

Basically, every large scale or mid-scale Japanese corporation that went through this distress, went through this similar cycle where they built up too much leverage, that leverage was never resolved in the courts. They never actually made its way to bankruptcy for a formal restructuring. Instead, the excess liquidity provided by years of QE allowed for a so-called “out of court restructuring.” The equity market was the ATM through which the balance sheet was cleansed at the behest of the banks. Which taught me that one, credit analysis is still very important. No one's doing it, because of decades of QE, so, you have an edge in doing it. But you don't apply it in the bond market, because the bond market is not the lever through which the consequences are applied for cultural reasons or technical reasons. The lever is actually the equity market. So, you apply the credit analyst learnings to the stock market, and that's where you can really generate alpha.

So, that was a realization that took a number of years and overwhelmingly on the short side. As you probably are aware most credit guys tend to be more skeptical or tend to be more negative, let's say, tend to be more worried about downside. And so, they gravitate more towards short. I was also did initially, but every now and then there are opportunities on the long side as well. Like Japan Airlines, one of the few companies that actually did get formally restructured during this time, it actually did go bankrupt. It was a landmark transaction, but because the stink on the bankruptcy was so huge when it came back to the market, it came back with a clean balance sheet. No debt, net cash, restructured routes, restructured costs, completely different OpEx build, and it came back at two times three cash flow. No one wanted to buy it, because it had gone bankrupt. So, that was the long implementation of this credit base view, was to get long stuff like that and to short the Sharps and the Toshibas in the world when they had this balance sheet issue that was had to be resolved with the stock market. That's kind of when you were asked about my training, was on the job, obviously, but that's what I learned in Japan.

Bill: Dude, that's wild. That's a really interesting insight. Do you think that that's going to go to the rest of the world? Do you think that that will transfer? Or, do you think that that's a unique Japan specific, like cultural, what do you tribute that to?

Jeremy: If you'd asked me this 12 months ago or maybe 18 months ago, I would have said, yes, definitely, because my whole angle for trying to launch my fund with this idea that credit-based equity investing was once only relevant to a place like Japan, where you had this long-term engendering of QE and how that causes complacency in the markets. But yet, over time, this is still resolved in equities through this kind of mechanism I described. My contention was over time that would spread to other markets like Europe and eventually the US, because these other markets are becoming more and more Japanized from an interest rate perspective.

However, sitting back and looking at it today, I'm not sure that's entirely-- Definitely in places like Europe, Europe has developed market. Europe has some of these kinds of behavioral tics that are evidenced in Japan. Less relevance of the bond market versus the bank lending market on the fixed income side. More power in the banking syndicates in the banking groups with regard to how companies get structured and restructured, and a general much lower tolerance for asset-based leverage, let's say, than the US. The US I would have thought it would go more in this direction, but post crisis, it's hard to maintain that belief. Post crisis meaning post-corona, sorry.

Bill: Yeah, why do you say that?

Jeremy: Look at the cruise lines, look at look at the airlines. Look at all these levered incapacitated kneecapped businesses that weren't-- very hard to see them ever generating meaningful free cash or at least to justify the enterprise values or the debt loads they're carrying now, trade where they are, like, the equity market is completely bailed out. A lot of these companies will untruly in advance when they should have. So, I think it goes back to the market participants. The US is just such a unique market in terms of who's participating in the market. Obviously, you have this retail frenzy going on now that no one could have foreseen. Japan, the vast majority of common Japanese don't trade stocks. They don't trade stocks for a very good reason. Stocks didn't go up for 30 years. That's why they all own JGBs. That's why they all own bonds, which meant that valuation stayed low, which meant that when you actually had these credit-based shorting catalysts, they actually worked because stocks actually went down when you had these massive dilutive events. Whereas last 12 months in the US, maybe it's temporary, maybe it's not, but that clearly hasn't been the case. Like the more they dilute, the more RCL, the more CCL goes up.

So, I'm not trying to be too short-termist, but I have to be a realist. I think the lessons from my Japan experience are slightly more general. Obviously, they apply still to Japan, and as I said, somewhat to Europe, and I've had some success in Europe, but I think the lessons are more general education-type lessons in how to approach balancing analysis, and how to try to value companies than saying, “Okay, that happened in Japan. Now, the US looks like Japan because interest rates are also zero. Therefore, credit conditions are exactly the same.” I think that’s, unfortunately for me, because it means less, less applicable skill set in the US, but it's probably not as relevant.

Bill: Yeah, I guess I'm talking my own book and that I hope that your skill set is relevant in the US. As I said, I think that most of my decent-sized wins, if I really look through a lot of what has gone well, a lot of it's been debt-first analysis. So, maybe the differences in Japan, you had to be focused to the upside or to the downside and maybe the US, if you look at the upside, maybe that's kind of the wrinkle, because maybe management teams are more willing to exploit that packages or market participants are more willing to bid something here. I'm not really sure, but I do think that the marriage of the two concepts makes sense and I don't hear a lot of equity guys do it. To my credit, friends that helped me, thank you very much, because I am just good enough to miss a covenant at the wrong time and thankfully, I can lean on some smarter people than myself at times.

Jeremy: That's what the network's for.

Bill: Yeah, that's right. How do you screen all this stuff? How are you sitting in Japan finding a dark Air Wisconsin idea? How the hell does that happen?

Jeremy: Air Wisconsin was just on someone's blog, and someone tweeted it at me or DMed me. The vast majority of ideas these days come from two sources, and often they're overlapping. The first source is kind of the organic, what I call the organic source. That is, new ideas grow out of old ideas, as you will know. If you invest in TransDigm, then you could potentially invest in Heiko. If you invest in Heiko, you could potentially invest in AerCap. If you invest in AerCap, you could invest in Delta. If you invest in Delta, you could invest in Sun Country. You know what I mean? So, there's this continually building on your accumulation of knowledge over many years.

Frankly, at any given time, at least 70%, more like 80% of my capital will be deployed in ideas that are first or second derivative of work I've done for many years. So, I'm never really looking to throw dollars. The bar for me to invest money in totally novel industries or situations is incredibly high. It's incredibly high. Invariably, it's going to be related to something I've invested in for many years, either a supply chain-related adjacent industry, whatever, or a different geography. A steel company in Japan, is a steel company in Poland, is a steel company in the US with wrinkles. Steel's a global commodity business. So, it's pretty straightforward. That's the organic bucket, and the inorganic bucket is everything else.

Overwhelmingly these days, it's reverse inquiry. Frankly. It's people throwing their best idea at me saying, “Have you looked at that? Have you looked at this?” And then it's just a matter of trying to kill it as quickly as possible. I literally in like-- it's a shooting gallery up there. I'm trying to assess. Someone's going to throw at me, and they're going to-- If anyone comes at me and says, “We should look at this,” and I come back-- I'm really critical. It's never a personal critique and it's never-- It's literally a time management tool. The biggest attractive for me is spending time on something that doesn't go anywhere. So, I have to try and filter things extremely quickly and so the process to do that is just to find things very quickly that are red lined, and I cannot cross them in a given investment, whether that be something about the balance sheet, whether that be something about the analysis.

People ask me all the time, how do you approach this company? Or, how do you start looking at something? Listen, if at any point in the first 30 minutes, something just makes your head spin and you can't get your head around it or you don't think you could get yourself in a position to get your head around it, just move on to the next one. It's just a core competency issue, whatever it is. Dude, I would just never look at biotech. I'll never look at pharma. I'll never look at insurance. I just won't do it. It's too complex. Don't care how juicy it is, don't care how potentially attractive it is. I'll just never be comfortable. So, that obviously the three or four sectors like that. Very rarely, if ever will I look at luxury goods, basically, if the intangible value of the business is very, very high relative to the total value of the business, so anything branded is just for me personally, the bar is just a huge amount higher because I'm a hard asset guy, I'm a balance sheet tangible asset guy. So, that's why I got into it with Chamath once when he started talking about how intangibles are undervalued on the balance sheet, and I was like, "Bro, what are you talking about?" And then, he blocked me. Oh, what a clown, that guy **[unintelligible [01:59:40]**

[laughter]

Bill: Well, congratulations on that.

Jeremy: Oh, my God.

Bill: Congratulations on that. [laughs] There are worse things in the world.

Jeremy: Dude, I love your rant on Chamath the last month or whenever after GameStop. The guy's such a Ponzi scheme. Look, maybe you have to you have to watch your words. I don't. I can't believe that guy hasn't been investigated by the SEC yet, frankly. But we don't have to go there if you--

Bill: I just think if you're going to sponsor a bunch of SPACs, arguing that you're trading options to learn on a situation that is clearly a market structure issue, and then you're going to cheer on the little guy when you have a million followers, I just said this doesn't sit right with me, man. The other thing that pisses me off is how much money is enough money? Why GameStop calls? Why do you have to be involved? I think the reason is, you have to be involved if you're playing the game he's playing, or at least my perception of the game he's playing, you have to be in the middle of stories, because a lot of it is like, being at the center of everything. But that's just not my shit, man. It's not who I am, and that stuff bothers me. Especially, when I think the normal people can get hurt, I am a retail investor, I might be a sophisticated one, but I'm not at some fucking hedge fund. My mom, I love my mom, but mom, if you listen to this shit, you call me all the time with crazy ass investment ideas that end up in your email box. So, that's just real talk. I could see her getting caught up in that stuff. That really upsets me.

Jeremy: Totally. I guarantee you 90% of his followers are a lot less sophisticated than-- not just you, but probably your mom and they will get hurt by that. To your point about why is he actually doing it? You have to be at the center of these stories, I think it may even be more banal than that, man. It's a power thing. Why is Elon Musk tweeting about GameStop? It's a power trip. Why did Elon Musk tweet this whole takeover? The fake tweet takeover thing, remember a few years ago?

Bill: Oh, yeah.

Jeremy: Because he was having an argument with his girlfriend's friend, Azealia Banks. He was having an argument and he basically said, look-- I mean, this is in some court filing. He basically boasted that he could get the market to move based on his tweet or something crazy like this. It was all an ego thing. There is a business rationale for the Chamaths of the world to marshal his retail flock into the next SPAC, which is sad, and as you said, is dangerous. But more than that, it's just a massive ego trip for these guys. Like you said, they have something of a responsibility, if not a very large responsibility to shepherd their flock more responsibly than that, at the very least, if not a moral obligation to do the right thing. But that aside, I'm not sure what gets me more the actual behavior, or the fact that CNBC has him on TV and thinks that he actually knows what he's talking about. The guy's a snake oil salesman. That's all he is, but I don't know, what do I know? I'm just another guy up.

Bill: I'm going to be slightly more measured in how I frame this, but what I will say is-

Jeremy: Sure.

Bill: -I'm like a tiny little Twitter account relative to him and I feel immense responsibility. Even if I was messing around with the GameStop stuff, which I did try to sell a call spread, but that was out to June and I don't know whether or not that would work. But I would never fucking-- to announce that in the middle of that frenzy and to have people think that you're participating in that and to tell them that it's this little man versus the big hedge fund? Which I'm not even convinced any of that stuff's true. There was a lot of money that was traded that week, and I'm not sure it wasn't just market structure stuff. Yeah, I don't believe it. So, all of it, man. It just goes back that how much-- [crosstalk]

Jeremy: It’s okay, though, dude. Dude, it’s okay. He donated all of it to charity. So, it's all good, bro.

Bill: Yeah, I'm sure. That's the thing. Forget about-- it's not even how much is enough money. How much is enough money? How much is enough attention? How much is enough power? How fucking greedy do have to be here? Just let it go. It's not that hard to let some stuff go.

Jeremy: Yeah, but-- Why did Bill Hwang, who was worth $200 million seven years ago and was worth $5 billion three weeks ago, why was he gunning for $15 billion? Why? How many boats can you waterski behind? It's always the same. It's always a what's that squiggle? That infinity symbol that infinity number? It's always the ineluctable chase for more and more and more. It's human nature. So, whether it's Bill Hwang or Chamath or Elon, whoever it is. Sorry, and by the way, I don't mean to equate Bill with Chamath I think it's a completely different situation, and more defensible in some ways, frankly, someone who got overextended and lost control and was obviously far too levered, but I'm not suggesting anything immoral, necessarily. That's not what I'm trying to suggest. But yes, to answer your question, how much is enough? It's never enough. It's never going to be enough for some people, unfortunately.

Bill: Yeah, I don't know, man. I just don't have that in me. Maybe that makes me a sucker. Maybe they look at me and they're like, “This guy, he doesn't have it in him to rule.” Well, guess what? I fucking don't. I'm just trying to live a happy life and I appreciate the people that listen to me, I appreciate the people that tune in and if I ever mess up, it's an honest mistake. I'm not trying to exploit anything.

On that note, man, I know that your headphones are starting to die and I want to extend-- I've had such a good time talking to you. So, if you ever want to come back, you just let you know, man. Ping me. Evergreen.

Jeremy: Definitely. No, I appreciate that and we'll have to get you hooked up for the site-

Bill: Yes, please.

Jeremy: -and get you involved in Air Wisconsin, and all the other dodgy small cap stuff.

Bill: [laughs] [crosstalk]

Jeremy: Honestly, [crosstalk] Yeah, for sure. We'll make it happen. But I think a lot of it's fairly small. You tend to traffic in much more liquid stuff. I try to go as liquid as possible, but if something trades a few million a day, that's more than enough for me.

Bill: I'm not married to that anymore.

Jeremy: From an intellectual perspective-- Oh, okay. Cool. Well, in that case, come on in, the water's warm. [laughs]

Bill: All right, man. Well, take care yourself. Thanks for joining us.

Jeremy: It's been a pleasure, man. Definitely. Thanks for having me. Will speak soon.