Francisco Olivera and Alex Morris - The Squad
The Business Brew

This episode features Francisco Olivera (@FrancoOlivera on Twitter) and Alex Morris (@TSOH_Investing on Twitter). Francisco and Alex are Bill's "mastermind" group. The three of them talk daily and discuss ideas. Scroll down to see topics and time stamps.

This episode was recorded in early May. The AT&T and Discovery deal changes some of the discussion. Nevertheless, the thought process is what's more important than the event outcome. Alex and Francisco will return in Season 2 to discuss more media. We are certain of that.

Please also note that Alex sold Qurate Retail Group after this episode was recorded.

Unfortunately, Bill's mic is a little distorted in this episode, but the conversation was so good that Bill didn't want to scrap it. The three gentlemen hope you all enjoy the conversation.

Sign up for Alex's Substack at https://thescienceofhitting.substack.com/

Check out Francisco's most recent "pitch" for Roblox at https://www.dropbox.com/s/qg827ammn51axwg/Roblox%20Investment%20Memo_vF.pdf?dl=0 and you can see him on Andrew Walker's podcast at https://www.youtube.com/watch?v=Np3AQjNV4OY

Time stamps as follows:

~2:00 - starting a Substack and thinking through the frequency of client communication

~8:00 - Francisco's research process and why he's Bill's Abominable NO-man.

~12:00 - Position sizing

~17:00 - Buffett on Verizon

~19:00 - Takes on Berkshire annual meeting

~35:00 - What a "bull market" may do to how we all frame investments (note Alex's YOLO hedge idea at ~39 minutes)

~44:00 - How we think about cash/macro; leads into big tech talk

~50:00 - How our investing philosophy has changed.

~53:00 - Comcast discussion

~58:00 - AT&T discussion (changed with deal)

~1:03:00 - Disney discussion

~1:09:00 - Alex presents a counter to some of the Never Sell narrative and points out that great companies go through tough periods

~1:14:00 - Microsoft talk

~1:19:00 - Difference between multiples and market caps

~1:21:00 - Back to position sizing

~1:30:00 - GEICO vs Progressive

~1:35:00 - Back to Substack, then Alex describes his Substack offering at ~1:39:00

~1:48:00 Qurate Retail Group

~1:50:00 - Alex and Francisco's bet for Apple to buy Disney

~1:55:00 - Twitter talk

~2:00:00 - Podcast strategy

~2:20:00 - State of Pay TV

Bill: Ladies and gentlemen, this is your host, Bill Brewster. This one requires a pre-roll, because for some reason my mic was superhot when we started recording, and I'm a little distorted on the episode. I would have under normal circumstances either rerecorded, or tried to record part of the episode again, but I've got to be completely honest. This episode has meant more to me than any of the others. No disrespect to those that have come before, but Francisco and Alex are two of my dearest friends. They have been through everything with me. They have exposed many of my weaknesses through our discussions. They've enhanced many of my strengths. I appreciate them more than any relationship workwise that I have, and these two guys are a huge, huge part of why my brain is what it is.

I do have to let everybody know that this was recorded in early May. So, some of what we talked about with some media assets has obviously changed with the Discovery and AT&T deal with the Warner media assets, and Alex no longer holds Qurate Retail Group, much to my dismay. Importantly, I'd like to add that, as I've gotten to know Francisco, what I would say about him is, you can give me any media analyst, and I'll take him against them. As I've gotten to know Alex, what I'd say is, this guy left a good job to pursue a fulltime role writing a Substack. I encourage everyone that can to subscribe to it. He's completely transparent. He lays out all of his thinking. He lays out models. If you are newer to investing and are looking for-- the word that comes to mind is a Sherpa. So, sorry, if Alex doesn't like that word, but that's the word that I'm going with an investing Sherpa, or you just want to get a peek into somebody else's way of looking at the world, or if you are in the professional realm and want an analyst for the low price of $350 a year, I think he's a steal.

So, the Substack, I'll put the link in the show notes, and he writes under The Science of Hitting Investing. If you're familiar with GuruFocus, you'll know who he is. So, I hope you enjoy the episode. Despite my anxiety recording it, I had a great time. So, with that out of the way, I apologize for any distortion, and I hope that you all enjoy a peek into what is my typical conversation with two of my dearest friends.

[The Business Brew theme]

Bill: Ladies and gentlemen, welcome to The Business Brew. I'm your host, Bill Brewster. Here with the squad, what do you know about that? My man, The Science of Hitting Investing, also known as Alex Morris. Francisco Olivera, also known as Franco Olivera. I don't know why that is. I guess it's a nickname. Anyway, I call him Francisco. You'll get to hear how we all talk, and all of the dirty secrets that these guys know about me, and how insane my brain is. Some of them may come out, we'll see. As always, nothing in this is investment advice. Nothing is a invitation or solicitation to buy or sell a security. Certainly, don't listen anything I have to say, but these two are pretty intelligent, and they're the reason that I am what I am. So, gentlemen, how are we?

Francisco: How's it going, man?

Bill: You tell me. I have this podcast now. You are my executive producer. The chief strategist.

Alex: [laughs]

Bill: What do you think? You think I'm putting out too much content lately? A lot of people say they can't keep up.

Francisco: I think it's the right amount. I think when it's three, four, five times a week, then, it becomes a little overwhelming. Think once a week is in your occasional bonus episode’s pretty good. Pretty good pace.

Bill: Hey, Alex, what's the last episode you listened to?

Alex: It's been a little while. I was waiting till I came on. I want to mess it up by knowing exactly how the format was. So, I laid low for a little while. I listen to a lot of the Mike Mitchell episode.

Bill: Streets are cold, folks.

Alex: No, it's a problem with podcast, generally. You need a way to make it more digestible and easier to discover topics that you want to hear about, and I think that goes for the industry as a whole, and it's going to apply to a podcast like yours as well.

Bill: You don't think that people just have two hours to sit around and do nothing, but listen to me bullshit with people.

Alex: I'm not sure.

Bill: Well, what were you doing with your days, mister, I'm so busy? Why don't you tell people what you're doing?

Alex: Well, I'm spending a lot of time trying to write two articles a week for this Substack that I launched. I thought two a week would be relatively easy to do, and I'm now learning if I want the quality to be really high, that is essentially a fulltime job. But it's gone really well so far. I'm enjoying it. I'm trying to find interesting ideas by talking to the two of you on the rare occasion that you guys have one. Besides that, I'm just updating and trying to not be stupid, which seems to be more difficult than it should be.

Bill: Well, it is very difficult not to be stupid. I always knew that two a week would be tough for you. Not tough for you, but that's a lot of work to put out quality content to a week.

Alex: Yep.

Francisco: Especially, --[crosstalk]

Bill: How’s your experience in Substack going? Go ahead, Francisco.

Francisco: Oh, no, no, I was just going to say especially that the type of content it is. Investing, you're trying to give-- Keep people engaged, but also provide insight, and the type of portfolios that you guys run in that I run. It's not we're making huge changes on a monthly basis necessarily. So, on a weekly basis can be pretty hard. So, no, I applaud you. I think you both have started new ventures out really over the past couple months, and out of the gate, the quality of the content has been pretty damn good, and I've seen some behind the scenes numbers, and they're pretty damn impressive for both of you.

Alex: It's almost like the podcast in a certain sense to that, you're going to have a certain number of people who are really a big fan of you, or your work or whatever. They'll consume a lot or sign up immediately, and beyond that, it's difficult learning the ropes on how you give people a taste on the work that you're putting out, and balancing the dynamic of having free and paid is definitely a big part of all that. Similar in a podcast, trying to get people to listen to 20 minutes is really hard to do, but if you can get them to listen to 20, they might become a fulltime fan. So, it’s figuring out how to make that work too. There's a lot of marketing and branding type stuff that plays into it as much as the analysis or whatever else.

Francisco: Alex, how far have you planned out some of your write ups, or is it spontaneous?

Alex: In terms of the quarterly stuff, I have a decent idea of the calendar and the companies that alone will certainly cover like Comcast, Facebook, things like that. I have a handful of companies that I've done analysis on that I've stockpiled that I'm either waiting for the right time to pitch them, because I think they're interesting, or I'm just saving in case I need them like, it stuck in a spot where I need to use something quick. So, I don't have a ton of stuff that stockpile, but I definitely have some in case I need it.

Francisco: Nice.

Bill: I have found that it's-- I don't know, man, producing content is much harder than I thought it would be. Having the actual conversations is pretty easy, but then the editing-- Shout out to Matthew Passy. He's been doing a great job lately. But in the beginning, that was a lot of work.

Alex: Yeah. Francisco, how was it for you when you obviously you went on Andrew’s pod and talk about Roblox, and you put out that public pitch which you've done that a couple times before with Disney and a few other things, but this was more your own doing. What was your experience with that?

Francisco: Well, you realize what you both do is extremely-- You’ve got to dedicate a lot of brainpower to it. I think the Roblox idea, and summary writeup of my thoughts, and why I like the business-- It took considerable time to not really-- because you read a lot, you think a lot, you talk a lot with different people, you have this idea of what you think about the company, but when you put it in paper, you write and then it's like, “Well, that's not what I really think. It's actually better than this.” It's difficult to collect your thoughts and make it an easy, digestible manner. I think that's why a lot of people say that when you write, it allows you to clear your head and think a little bit simpler and clearer of what you're really studying. It's a lot of work, and it's hard. Writing twice a week and producing a podcast once a week or twice a week that you both do together-- well, separately in your ventures. I think it's really tough.

So, that Roblox analysis took a lot-- After I finished, I was like, “Well, that was a big--“ kind of like running a marathon, but I didn't feel like it was rushing or anything like that.” I really did it for clients. I used to write a quarterly letter to clients, and then I thought it was-- When you're writing quarterly letters and you have a concentrated portfolio, you're not really making a lot of changes on a monthly basis. Then, quarterly letters begin to get a little bit more about, well, what's happening in markets. That's really not important to each portfolio company or what's newsy information happening about each investment. It took away, I think, about thinking long-term about companies. So, I changed it to a letter that's twice a year. It's a little bit more thoughtful about each investment.

But then I realized, well, you're only communicating in a longer form way to your clients twice a year, that's just not a lot. So, decided that in between those letters, if there’s something new material in the portfolio, I would write basically an analysis of the company, and that's where the Roblox piece comes together. Then, I decided to share it-- Thanks to you guys, talking to you guys, whether I should share publicly or not. It's a large company. Many people have covered it so, for some people, it's not game-changing information, but I thought it would be helpful to connect with different people, maybe looked at a company from a different perspective, and I thought that was helpful. So, I thank you both for that.

Bill: It's not that-- a lot of people have covered it, man but it's still really early in that company's public life.

Francisco: Oh, yeah, definitely.

Bill: Why don't you talk a little bit about your research. I think Buffett always talks about Charlie being his Abominable No-Man, and that's what I think of with you.

Francisco: [laughs]

Bill: I think I have crazy thoughts, where I'm like, “Dude, what do you think of this idea?” You're just like, “What are you talking about?” That helps me. Sometimes I stray from your guidance, and then I end up regretting it most of the time. But why don't you just give people a sense of what your research process is?

Francisco: Well, it's not that I'm dismissive of ideas you might share. It's just the way I think about it. Really, if I want to have a more business mindset to investing in a long-term approach in a concentrated portfolio then, it really has to be something that you really want to dive into, you really want to be extremely knowledgeable about the business management team industry, and then be able to ride out ways whether a company can report earnings, like Spotify, the other day stock goes down 15% in a week or something. You want to be in a situation where you're not the one who's blindsided by that or would have a knowledgeable reaction. When I’m looking at something, if it's an industry, I just know, it's going to be the amount of brain damage and going through it understanding it might take months, and probably not the type of thing I would commit 5% to 10% of the portfolio, and then it's an automatic pass. Maybe over I can be learning little by little about and in over time I could get there, but classic industry like healthcare, it's an automatic no in many aspects. There are things that are-- This is not a perfect approach, and it will cause me to miss a lot of things. But it also keeps me focused on my strengths as an investor.

There's nothing real unique about my research process. It also has to do something that you gain a lot of interest in, and so one has to be careful that you can gain a huge interest in something that's not necessarily a good investment as well. But I think interest and curiosity keep you motivated throughout the research process, because if you're just reading about a company for months, it can't be reading some very dense textbook and you're powering through that. I think you’ve got to be curious in interest in the companies that you're looking at. So, I think those are the main drivers that keep me focused and pushing and studying and analyzing companies.

Alex: For both of you, as you find yourself shifting more your attention to companies like Twitter, Spotify, Roblox where in terms of the quarterly or annual results, it's so much different than something like Charter that you both like where you have a general sense for-- The numbers are going to come in a pretty tight range and you know if they're outside of that range, you either need to be able to explain it or not. With some of these other names, you're moving into a different world. Do you think your approach to position sizing and how you react to quarterly results and things like that, has needed to change as a result of that? Do you think it is basically the same approach, or is it a different type of investing?

Francisco: Do you want to go ahead, Bill or--?

Bill: Yeah, dude. My two cents is I am not comfortable sizing something like Twitter like I size Qurate for instance right now. The reason is a couple fold. One, with one of them, I was getting a lot of cash back, so it was naturally desizing. Two, that equity was too cheap. I think that there's a reasonable case to be made that satisfactory returns can occur, but-- I understand why there's doubters, and I think that, if you don't understand why there's doubters, then you haven't done any research on it. Then, I think that the doubters will be proven wrong, but I also think that they have a fair amount of history on their side, and I think Francisco's comments on, “Let's see how they do getting the credit card data” is very real. So, to me, I'm not going to size that in a way that it can really hurt me in a real way.

Now, some of me says like, “Okay, well, why do I even own it?” I guess that the answer is fundamentally, I do believe in diversification a little bit as somebody that's 100% pretty much allocated to stocks. So, I think a couple people would argue that that's not diversified at all, but within that bucket, I think that it's like-- Look, I don't think Twitter is going to be correlated with Qurate. I don't think it's going to be correlated with CBOE for instance, which is something else I own. I do think it's actually a non-correlated equity bet, and I will acknowledge to those that are more asset diversification focused that I'm not very diversified from an asset perspective. Shoutout to my man, Jason Buck. I know you're trying to get me to change that.

Francisco: [chuckles] I think definitely, like Bill said, some businesses-- Well, it's all about really the downside, right? You don't want to size something at 15% that has a real chance of a business going on to basically being irrelevant in five years, especially if you're long term. I think the way I think about it-- yet there's a business-like Spotify, there's more variability at least in what's anticipated in the results versus a Charter. At this point, definitely. But also, what's the real downside of Spotify? Is there a real chance that it's a business that's worth half its value? I don't know. I would say that's a low probability. But also achieving that upside, that real, real upside right is not something that has a huge execution, versus maybe a Charter whose real upside, there's not an exponential upside scenario and it will probably be easier to achieve the satisfactory type of return. But look, once upon a time, Charter had no free cash flow.

Bill: Oh, it’s a pass. Pass.

Francisco: [laughs] [crosstalk]

Alex: Scream terribly.

Bill: [laughs]

Francisco: It’s low.

Bill: It's cheap on current numbers, Francisco. You can't look at it.

Francisco: Well, exactly. I think before they-- [crosstalk]

Bill: Oh, wait. Expensive. Sorry, my bad. I'm messed that up. Damn it.

Francisco: [laughs] Before they acquired Time Warner Cable, the capex as a percentage of revenue was mid-20s, or low-20s, and free cash flow did not exist and the investment was in the belief that this CEO, Tom Rutledge, was special and was running a really, really great asset in a great industry, and was going to be able to get a lot of cash flow out of the business over time, and you've got a big cherry on top of if they were able to do aggressive M&A. So, I think as the further you look, the variability is high and the perception of downsides to the eye of the beholder, but of course, right now, yeah, it's Charter, which I do own is potentially lower downside risk reward than Spotify, but I would also cited Spotify as a small investment personally. Twitter, I don't know. We've talked about a lot.

Bill: I know. You don't need to come at Twitter. Come on, now.

Francisco: I'm not coming at Twitter.

Bill: [laughs] Yeah, I'm just joking. I'm just joking.

Alex: [laughs]

Francisco: [laughs]

Bill: So, all right, dude. To give people a sense of when you say, you own Charter, do you want to give people a general idea of what owning Charter means for you?

Francisco: Well, it's a pretty-- I've owned it for over six years, close to seven, I think. It's a position that is about a quarter of the fund that I run, so nicely over 20%. It's a big position. It's composed of a Liberty Broadband and Charter. I've owned it for a long time. It wasn't initiated at that size. It's also a different equation when I got in. But yeah, it's a company that I like, and I think they're doing fairly well. It's a fantastic asset, and I think it has a cash flow stream that is super defensible for many years to come, and that should improve.

Bill: Did you get nervous at all when Buffett was talking about his Verizon investment, saying that he had no unique insight into why he bought it?

Francisco: Well--

Bill: Which he did not say Verizon, but I think that's what he was talking about.

Francisco: Yeah, I think he was flat out asked about Verizon, and I think Buffett sometimes gives more insight of you asked about a company without asking why he bought it. So, if he's asks, "Hey, why'd you buy?" I don't know, Kraft Heinz. I guess now, he's on it for many years, but something relatively soon, he will give you like, "Oh, we don't really talk about that." The answer he was given. But I think if he were asked something about what are his thoughts about the telecom industry, wireless industry, I think maybe he could have given a better answer. But yeah, I think I was surprised to see that he bought Verizon. It's obviously not a huge investment for him by any means. But some of the Todd or Ted have exposure to cable companies, so they know the industry well. I think they've owned AT&T in the past and an even Dish. So, they understand-- not anymore, but many years ago. So, I'd imagine they, all the three of them had conversations about the industry. I'm surprised, he bought Verizon, but hope that investment works out doesn't look expensive.

Bill: Not too well, though. Not at Charter's expense.

Francisco: [laughs] Well, like the Verizon CEO said the other day, cable companies taking market share and wireless is equal to Verizon taking market share and wireless so to the extent that they see that success, and hey, Buffett and Charter shareholders can win.

Bill: There you go. Well, we'll see. I don't know. I thought that was an interesting meeting. I like the format when people aren't getting up and having their eight-year-old ask the questions and saying, "I fed my eight-year-old the DCF, and she has this question for you."

Francisco: Yeah, I agree. Definitely.

Bill: But I guess, I tweeted out early in the meeting that I really liked how it was starting, but I guess towards the end, I don't know, I liked that meeting, whatever. I'll just-- [crosstalk]

Francisco: What do you like and dislike about the meeting? Are any answers in particular that come to mind?

Bill: I tell you what, man. Charlie was sharp.

Francisco: Agreed. Big time.

Bill: He had the knives out, and he wasn't afraid to say what he thought, and I think he missed that stage last year. So, I guess that was my major takeaway. I did find the comment when Ajit Jain said that he wouldn't underwrite an insurance policy that Elon was on the other side of. I was unsure of what he meant by that comment. [laughs]

Francisco: Spicy.

Bill: Yeah, it's either incredibly nice or incredibly rude. I'm not sure what it is. On one hand, you could interpret it, he's so smart, I wouldn't want it out probability him. On the other, you might think he's a bit of a shyster. I tell you one the answer that I really liked. When they were talking about Texas, and Berkshire Hathaway energy, and Buffett was like, "Look, we're going to deliver on our bid, and if we don't deliver, we're going to pay taxes for a billion dollars. I don't really care what we lose to if we lose, but if we lose, that person should be on the hook." That's pretty fucking dope. That's the stuff I respect about that guy.

Francisco: Yeah, it's an amazing asset. Amazing business they've built over time in that entity.

Bill: Well, the way he said it, the way he's talking about insurance contracts, where he's like, "If you sign a pandemic contract with us, we're not going to have some random clause that you didn't know existed that we're going to like back out of our insurance." He reminds me-- people used to say, Arnold Palmer did deals on a handshake like that. That generation, the way they did business, I'm sure I have him a little bit hero wised in my own mind, but he's a cool dude.

Francisco: You know part of something I found pretty interesting, obviously, a lot of the questions early on in the meeting were about the pandemic, and not really doing anything in March. I thought it's the same thing always with Buffett. He doesn't care about macro, but then when he starts talking about everything's about macro, because it was incredibly relevant at the time. He talks about the idea that the day before March 23rd, or whatever the day was, week before, he doesn't even think Berkshire would have been able to issue bonds. That's how quickly liquidity was drying up, and he talks about how obviously fiscal monetary policy was aggressive. He didn't know how it would go, but I went back and looked just to see what that period was really like, and I was surprised to see that on February 10th, the S&P 500 was at 3380. On the 16th of March, it was at 2305. How long do you think it took to get back to where the S&P is at the start of the year from that bottom, if you guys had to guess?

Alex: July?

Bill: I think it was quicker than that, man. it veed hard. Maybe May-ish.

Francisco: This is right in between. It was basically, June 1st, when it was pretty close to where it had started the year. So, from when he thought, or when anybody objectively with the facts now would say, yeah, that was a really ugly period of time to when the market was back to where it started a year was basically a two-month window. Now, the markets, 30% higher than where it was at the end of 19. So, when you frame it in that way, it's like, "Well, yeah, someone's sitting there with $100 billion plus not being able to put a lot of money to work." It makes a bit of sense. You compare it to the financial crisis, the market took five or six years or something to get back to where it was pre-GFC, and obviously, they're not identical situations, but you can understand how they would have a bit of an issue putting a ton of capital to work that quickly.

My one knock on the other hand would be, when he frames their cash balance relative to, what was he saying, as a percentage of their total assets basically?

Bill: Yeah. He said like 15% or something.

Francisco: Yeah, getting a little squirmy with that answer there. I didn't totally love that idea. You framed it slightly differently in terms of how you might act to get the opportunity to do so. So, that answer to me was really interesting. I don't really know if it changed my perception at all of what they could have, or should have done, but it was a good reminder just how quickly things got crazy, and then rebounded. Obviously, plenty of people were saying markets were expensive going into the year. So, it's not like it was some fantastic deal when it got back to where it was, and you knew the government was going to act.

Alex: Well, here's the thing. There's two things that jumped out at me. One is that, you said June, right? But if we rewind last year to May, his annual meeting, it felt to me, he was fairly nervous about the situation economically.

Francisco: Mm-hmm.

Bill: Yeah, I agree with that.

Alex: It didn't feel we were out of the woods. So, you look at that, and he wasn't going to necessarily start shooting bullets if he doesn't really have an insight. The other thing that he said in this year's meeting is the question of why he sold the banks, and it was more of a macro reason.

Bill: Yeah.

Alex: He gave more of like, “Well, the business is great, it’s better than before. It's a great business.” He kind of wobbled, but then he said, “Well, I didn't think it was going to be as good economically,” basically, and it's been better. He's admitted to that. So, it was a more of a macro reason why when he saw the banks. I think when he gives you some insight when he talks about industries and mixing with companies with why I think he would have said more about Verizon, because when he was asked about the railroads and competition, I thought that was interesting, because it shows you-- “Well, Kansas City has this contract in Mexico, but it's only until 2040,” something I think he said. So, I don't remember exact time, or only a long time, but not forever. So, he's showing why it's not super valuable, I guess, and then did-- He said basically that they had looked at buying CP? I had never heard that before.

Bill: Yeah.

Alex: Maybe I've missed it in the past, but-- [crosstalk]

Bill: I didn't think he said that in a news making way. I thought he just said that, like, we all look at each other's assets. So, we all have a sense. I'll tell you what, man, he didn't say, he thought that deal was cheap. Here's basically like, “Yeah, everybody's playing with other people's money.”

Alex: Well, I think you said that financing. It is so cheap, and obviously, there's synergies that you could probably make the numbers work, but not. I don't know.

Bill: Well, I think what he said was he said something along the lines of no one's actually going to care if the CEO made a return, but when he retires, people will remember whether or not he made the company bigger.

Alex: Yeah.

Bill: Because I was like, “Whoa--.”

Francisco: What was his comment along the lines of like, “Yeah, we bought a basket of equities that we don't really know if we actually know anything about them, but we just decided to do it, because it's better than treasuries?” Was that the gist of one of the answers? Does that ring a bell?

Bill: That's what I thought. I thought he was talking a little bit about Verizon, and probably the Japanese basket. Because he said he didn't have a unique insight into that.

Francisco: Do you think he's just going to fold on holding all the cash?

Bill: Dude, the thing is, he just doesn't have the chance to buy things as the lender of last resort anymore. I don't see how you can operate on the assumption-- I guess you can say, “Well, there's some scenario in the world where Berkshire is the lender of last resort,” but I think after this policy response, it's very, very hard to bet on that.

Francisco: He kind of teased the minimum cash, because he said, they could basically buy something worth $80 billion. So, what, they have $140 billion in cash more or less, so you get a sense, or maybe a little bit more than that, so you get the sense that maybe he wants to keep $60, $70 million around. My guess is, imagine Berkshire buying a business worth $100 billion. It's not a ginormous group, especially when you take out banks and companies that he really can't consolidate and take out some industries that you know Buffett's never going to buy, are at least $100 billion worth. It's difficult. Lender of last resort, happens in these really, really crazy periods, and that's once a decade, or once every 20 years, and who knows when that happens, again. Probably will happen at some point, but who knows, how fast it'll come in. And just buying a huge, huge business, I just feel that opportunity is going to be very difficult for him to execute on anytime soon. So, I think it's all about the buybacks.

Alex: Well, it's also interesting, too. Even on Apple, the sense I got from their answer was that Buffett wanted to trim, not a significant amount, $5 billion, or whatever it was, and Munger was opposed to or wouldn't have done it, if he was the one making the decision. It gets this whole idea of opportunity cost, and are you selling Apple because you don't think it's going to hit some hurdle rate of whatever, 8%. 10%, 12% a year? Or, are you continuing to hold it because it's better than the alternative of adding another $5 or $10 billion to a cash pile that you have no idea what to do with anyways, and can't make any money on? It's always one of those hard things to think about. If you're going to hold cash, and this is more applicable to what we would be doing in our personal portfolios or something like that, but it’s always a hard decision, because I think it mucks up how you think about the whole idea of opportunity costs, or it can.

Francisco: Well, if you’re running a portfolio, and it's concentrated, but then you just get a lot of inflow of cash, a lot of inflow of cash, it makes it easier to keep things honestly, especially, if they run up, because eventually everything's getting diluted anyways, and you're going to have so much cash and you can buy things that are bigger. So, I think it's a different decision versus running a portfolio that's not getting necessarily cash flow. If you buy something or sell something most likely, so, it's a little bit more complex. Like you said, I think probably is better to keep Apple than just pile up the cash, unless it's going straight to buybacks.

Bill: You know what drives me insane is when he's like, "Apple just use their cash to buy back stock. So, Berkshire shareholders got more Apple and it didn't cost them a dime," and it's like, "All right, bro, But like--"

Francisco: [laughs]

Bill: "That's not exactly how it works, and I know that you're smart enough to know this." He [crosstalk] stuff.

Francisco: He's going to framing stuff sometimes when it's really nice and convenient to do so. Especially, when it's a company that's not Berkshire, so he can just give them a nice little pat on the back regardless of what they do, but that thing drives me crazy. [laughs]

Bill: Let me push back.

Francisco: Oh, boy.

Bill: Why does he drive me crazy?

Francisco: Because it's a lie.

Bill: Why is it a lie?

Francisco: [laughs] Because that cash has value. [laughs]

Bill: Dude, here's the thing. If you are Apple buying in shares-- this happened with Coke. It already happened. Now, maybe Apple is different, and I understand that it might be, but with Coke, he was just like, "Well, we keep owning more, and we're okay with that." It's like, "All right. I get that." But also, there is a limit to when they should be buying back shares. If $40 billion or whatever retires 1% of your company, which I understand is not exactly the math, but not all that far off. I don't know, there's not a better use of that cash somehow? I'm not sure that that's true.

Alex: I have a different view. Not a different view. I think we're going to agree on this, but I think Coke is a little bit different to situation that it got dramatically overvalued, and the business was getting worse.

Bill: Yeah, that's right.

Alex: I think when it's buybacks is not just, oh, it's a stock cheap, or it's a stock expensive, because you can argue-- Because then what makes it cheaper expensive, the future value of that business. So, what stock with a high-- you could look at it like, “Oh, 52-week mega high, high multiple, but might be super cheap in buying back stock.” I think in my mind, look, if the company just has excess capital, excess capital for real that it does not need, and the stock is not-- It might not be super cheap, but it's in the range of intrinsic value, and the business is not really going to have trouble going down the road, because you want to be buying back stock in a business where it's contracting, then it's probably good to buy back stock, if the business is contracting, going down, down, down now just dividend, dividend, dividend and special dividend. But I think a Coke situation, very, very, very high multiple in the business performance over the next decade plus is not going to be attractive. That's obviously a don't buy back.

But looking back, probably, Buffett didn't think that it was going to happen to them, in terms of the business performance. He thought well, if they buy it back here, it's not going to be the end of the world, because then the stock will revert and they'll keep buying back and then a wash in a sense. There's not an easy answer when he says like-- For Buffett, it's different in terms of being price sensitive, because he's got other things to allocate capital, but a singular business-- I don't know. Look at Charter, they bought back a third of the company over the past couple years. If they had just piled up cash in certain moments that the stock looked a little bit too expensive, and then buy back a lot when the multiples a little lower, that's also extremely hard to execute as a company, and it's not perfect. What if you were slightly wrong, you waited and then you missed a big opportunity to take down a chunk of your shares. It's probably better just to keep a consistent buyback program, if the valuation’s not wild, and the business is going to do fairly okay. But I don't know that's-- [crosstalk]

Francisco: Well, no, that brings it back to the start this whole discussion that we're having on this, which is good is I think that's partly what he was saying when he was like, “Yeah, I don't really know, if I have unique insight on these groups of businesses that were buying.” He was almost saying that, it doesn't make sense to hold this much cash anymore, and honestly-- I think back to there's this idea that they invested super aggressively during the financial crisis, and I think if you look at how much money they actually spent, it's something where they didn't stockpile cash for a decade to make those investments happen. Maybe I could be wrong on that, but I've looked at the number-- They spent $15, or $20 billion or something, which surely is not nothing. But I just don't know if there's true incremental value add from trying. It'd be doing in your personal portfolio. Stockpiling cash for years, and years and years waiting for a chance to buy stuff really cheap. I think what we've probably all learned from investing personally is, granted, we're saying this after a very long bull market, but that's a very difficult way to play this game, and I'm wondering if what you just said about companies in general probably should have applied to them for much of the last 10, 20 years.

Bill: I think that in general, I have benefited-- Well, I know that I've benefited from having cash. But on a go-forward basis, I don't think that that was the right thing. I think I just got bailed out, which sounds horrible to say, by a pandemic. But between the pandemic and December of 2018, having cash objectively did help my results. But I don't know that I really want to bet that going forward. On the other hand, Corey Hoffstein and I were having a discussion, and he was saying that-- an interesting comment that he had was that the typical mutual fund used to carry 5% cash, the typical ETF carries point 0.5%, so, as people have rebalanced towards ETFs, there's a natural buying in the market, and also, less cash. So, this idea that there are more tails, both good and bad, is one that I think that he would say that it's at least plausible. I think what he said, and I'm trying not to misquote him, listen to the podcast, if you're curious, it's towards the end, but was that he's doing research on whether or not it makes sense to just carry puts as insurance rather than a typical 60/40 portfolio, because he thinks like-- let's just say you think that stocks are going to return 5%. So, 60% of 5%, 3%, and bonds are zero right now, so let's call it like, 3 is what you own, and you get some diversification, does it make as much sense to just go 98% equities, and just burn 2% on puts every year? I think what he's shown is that the return profile is actually quite similar.

This is all just a long way of saying that I don't know how I'm going to run my portfolio going forward, and this is really hard, because I do think that I have objectively been pushed into thinking about these longer tail ideas, and what by tail, I mean, duration. It's hard to argue that that's not a function of rates, and where just the world is right now. But I don't know what you do about that. I can't sit around and wait for the world that I wish existed. You got to navigate the world that you're in.

Francisco: No, I agree. But if you look at that puts idea, I think it's interesting, but also have it play out. Let's say they expire every two years, and probably worthless, it's 2% of your portfolio. So, you're burning 1% a year. Five years can pass by, you burn 5% of your portfolio, but they come in handy if you get a March 2020, and that position goes up like 10x or something. It's hard to execute on that.

Bill: Yeah.

Francisco: Because you're going to have to be out there rolling them. They're going to be expiring, you're going to stay in there, and you're like-- It could definitely work out. I go back and forth on that issue, and I think sometimes it could be prudent to have 10% maybe 15% in cash. I think when you're going to 30, 40s--

Bill: Yeah, that's too much.

Francisco: It's not. [crosstalk]

Alex: I've said it before half-jokingly, if you're going to do that, if we're going to go 10%, 20%, 30% cash, you need to take 1%, 2%, 3% and put it on some YOLO the exact opposite of what-- If you're thinking the markets are crazy--

Bill: Yeah, dude.

Alex: --you need to find something that you think is already the craziest, and put some of your money on that.

Bill: Then just fucking buy out of the money call options-

Alex: Yes.

Bill: - in case you're wrong. Yeah, that's a bad idea. It’s the reverse hedge.

Francisco: I'm thinking about this as just as stock picking fun-- All type of structures are different personal portfolio, big asset manager, kind of an endowment and all this stuff. I'm thinking about more like you're just stock picking. If you're going to 30% cash, that is a market bet in my opinion.

Bill: Yeah, I agree with that.

Francisco: So, you really-- [crosstalk]

Alex: So, is Berkshire going to $140 on market bet?

Francisco: I don't know, because look, they have leverage as well. So, it's more-- You net out some of the debt to subsidiaries have and I think the whole call has some debt and the float is liability. It's not like, it's a gross. It's not a net cash position that is enormous, or it's big, it is big, but it's not like 30/40, the things that we're talking about.

Bill: It's smaller than headline number two. People don't understand that a lot of times.

Francisco: He wants this company into become a trillion-dollar company in his lifetime. This is not decades' things and $140 billion in cash for a trillion-dollar company couple years down the road is not insane. So--

Bill: You think he wants that for real?

Francisco: Yeah, for sure, he wants to be a trillion-dollar company.

Bill: You think--

Alex: I think he gave up on that with the repurchases. He's going for a million dollars a share on the A shares. [laughs] That's the new hope-- [crosstalk]

Bill: That would be dope.

Alex: That'd be not as --

Francisco: [crosstalk]

Bill: Yeah, that would be.

Alex: Not for me because I don't own anybody. [laughs]

Bill: Yeah, the B shares, they got that arb.

Francisco: You can say both ways that the repurchase is accelerating intrinsic value per share. So, it's going to push, could get the market cap closer to intrinsic value. I'm not sure whether it's a bad, Also, it's what we talked about. Cash is coming in, cash is coming in, cash is coming in. So, he's got a theory to deploy all that cash, and then reduce the cash balance, and sometimes cash comes in, that's not necessarily free cash flow. It can be a huge insurance deal. So, it's a bet in some ways, but it's also like the amount of cash coming overwhelms what he can put to work naturally, and I think he's realized slowly that he just can't put it all to work, and I think that's the reason why you're really getting buybacks over the past year or two, versus-- [crosstalk] talking about it.

Bill: I think he was waiting for March, and the March came, and I think policy just kneecapped him, and I think then he realized, I can't be the lender of last resort. And if I can't be the lender of last resort, that I might as well buy in shares. I think it's actually very rational, the evolution, but I think that he was kind of-- Also, what I'm about to say is sick. I don't think Buffett was actually hoping for March, but I do think that a lot of his shareholders were and I kind of was too and not in a pandemic sense, but a little bit of a crash, where he was there, and something that I've had to look at myself in the mirror is do I really-- Forget about what I think is right to do, but do I want to wait for crashes to be a liquidity provider, and is that actually a healthy thing to put out into the world? I don't know how much I believe in karma, but I don't think that waiting for everyone else to be in massive pain so that you can make a huge bet is necessarily the best way to live life.

Francisco: Well, it's funny you frame it that way, because I think Seth Klarman was interviewed a couple years ago by Charlie Rose, and he was basically asked that question like, “Do you desire market malfunction and stress?” And because obviously, that implies something that's happening in the real world that's not pleasant for people. But in that happening, it creates opportunity.

Bill: Yeah.

Francisco: So, before I used to think that was probably a smart thing to do. Now, I think you just have to be aware of things, and it's going to be really hard to predict these things. But focus more on the businesses, and if you have a concentrated portfolio, you’re thinking about these businesses all the time and the new businesses and yeah, maybe I won't be able to call the next subprime meltdown, but talking to a lot of people that maybe will be able to point me in the right direction, and then being smart about the business that I own will help me out with those investments and future investments. So, I don't know, to focus-- After the financial crisis, a lot of people dedicated a lot of time to the next event, inflation or another crash, and I think it consumed a lot of people into thinking that we just had this crazy once-in-100-year event, it was something similar what's going to happen relatively soon. Thinking like that consistently about things that as if they were going to happen super soon, I think can divert you away from more important stuff. Look, what's happened with the FAANGs, the major tech giants that's because kind of what-- [crosstalk]

Bill: [crosstalk] were crazy results. Crazy.

Francisco: They just kept swimming and swimming, and people will then be worried about inflation, this or that and these companies, little, little, little by little bam. I remember when Apple became a trillion-dollar company, like, super huge news, and we have a bunch of them, and Apple’s like--

Bill: Yeah, I sold there. Thank you.

Francisco: [laughs]

Bill: You’re super smart.

Francisco: I sold it around there as well, a little bit before, unfortunately.

Alex: [laughs]

Francisco: But yeah, that's also a huge event type of thing.

Bill: Dude, do you know what their TTM free cash flow is? According to a screen. I haven't done that. I don't know how many adjustments are needed, but $90 billion.

Francisco: Oof, wait, which one? Apple or--?

Bill: Apple.

Francisco: Yeah. I thought you were saying all the FAANGs together.

Bill: No, no.

Francisco: But yes.

Bill: That’s nuts. Is that thing's trading at 25 times trailing free cash flow. That's not that nuts. That's why when people are like, “Oh, these stocks are so expensive.” It's a 4% free cash flow yield on a really fucking good asset that owns basically attacks on all internet businesses. Now, a lot of that may come under pressure. I don't disagree that there's iPhone potential obsolescence. There's a lot of stuff that you can talk yourself into. Fact of the matter is, for a long time, I didn't think this thing would have the runway that it has, and it just keeps chugging.

Francisco: Well, to your point, the focus was an iPhone being a product that’s just going to be a fad. Even in 2014, 2015 they were talking about that and sorry, Alex. [crosstalk]

Alex: No, I was just going to say Buffett's comment about the iPhone, which he said this in different ways before in the past, but his comment at the meeting saying, yeah, there's a lot of people who you give them the choice between their $30,000 car and their $1,000 iPhone, they take the second one, and amongst the people I know that's got to be 95% plus, who would take the phone over the car. It's not even close. It's insane how much that innovation from 2007 has just completely changed the entire world.

Bill: I'll tell you who I watched kill that call was Sohrab. Fuck, I always mess up his name. I'm sorry, man. I don't mean to.

Francisco: You're talking about Apple call?

Bill: Yeah, man. He and I talked about it a little bit, not that we talk all the time, but we were at a group together, and he wasn't struggling with it by any sense, but he was like, “Man, this market cap is mind bending, but look at the math behind it, and it makes sense,” and he was totally right. I got a little bit psychologically tripped out by a trillion dollars straight up.

Alex: Well, the focus was on unit sales, and remember when they decided not to report actually iPhone units anymore, and people are thinking like, “Well, this is the end of Apple. They're just reducing disclosures, and now, basically, they're trying to frame the services revenue, and it's growing, but it's not a big deal,” and now it's to your point earlier services is a tax on the mobile internet, and they basically own 30% of it.

Francisco: That’s crazy.

Bill: Still not that big of a percentage of revenues, though, which is even more mind boggling.

Alex: Yeah, but it's crazy.

Francisco: [crosstalk]

Bill: Big margin. Oh, huge.

Alex: It's crazy to think that, going back to our discussion before about balance sheets, capital allocation, that thing. Obviously, the stocks done insanely well, but imagine if Jobs had listened to Warren Buffett, when he asked them what to do with all the cash they had. If they had started this net cash neutral balance sheet positioning 10 years ago, oh, my gosh, it’s unbelievable. Think how low the share count be right now. People, they've done okay, anyway. So, they'll be all right, but that would have been insane. Now, they can't even spend it quick enough. When you're printing $90 billion, it's hard to spend that much.

Bill: Dude, you asked me investing in Twitter, and I told you guys, I bought a small amount of Spotify, just because I want to make money with you guys.

Francisco: [claps] Congrats.

Bill: [laughs] No, I think how I've really changed as an investor, and I might be wrong on Twitter, whatever, but I care much more about the asset that I'm buying than I ever used to. I used to think a lot more in valuation terms, and I still on like-- I get it, if I pay $50 billion for an asset and it doesn't work out or it doesn't generate cash, I'm going to get screwed. I fully understand that.

On the other hand, a lot of the guys that I think have got records that I really admire, are guys that have been able to think 5 to 10 years out and be like, “What can this asset actually potentially do?” They've been wrong at times, but when they're wrong, it hasn't killed them. And Buffett was saying, “They've been wrong before, but when they're right, they let it run.” I think if you get-- I don't know, for me, I'm going to try to continue to try to build wealth for my family by buying unique assets. That's the goal for me, and then to pay a fair price for them. I'm not really into-- Obviously, I'll go into Qurate with the right situation, but I'm not trying to buy mining companies at 0.25 book to play some rerating. Those days are long gone.

Alex: What do value investors-- traditional, you read Buffett, you read Graham, value investing books when you get into investing those two things you learn. Price and long term, right?

Bill: Yeah.

Alex: There's many other things, market, you're basically benefiting from the market. It's not your friend or foe, Mr. Market gives you a price every day. You basically when it's crazy cheap, you pile in there. But in my mind, a lot of people-- buying, going after cheap, that is not a quality business to your point. Being a long-term investor is actually a negative, because if the business qualities not there, time is your enemy, not your friend. You want to invest in things that time is your friend and not your enemy.

So, I think that's why, and I agree with you, Bill. Looking for businesses that are strong and getting stronger, and this is what Buffett says, man. Like, “I want companies that are getting strong and getting stronger,” and that's what allows him to be also long term among other reasons, but you can't be long term if you're buying an asset that is just cheap, but it's not the best asset. You basically need a catalyst for that cheapness to be realized quickly.

Bill: Yeah. That’s right.

Francisco: The other part is the right people, too. As part of my learnings, I think happened to a lot of probably, Buffett accolades is, I took the wrong message from the investment business an idiot could run, because soon one will, or the comment about the jockey versus the horse. I think at this meeting, Buffett said something along the lines of the disclosure that you never see in filings, but that should be there, is that the real risk is getting the wrong manager in there.

Bill: Yeah, I thought that was interesting.

Francisco: I think on Value: After Hours, Ian said, he looks to invest in micro caps, where they have a manager now or a founder whatever it would be, who had an exit for $200, $300, $400 million, and now is doing the thing that they really wanted to do all along, and they have the proven ability, and they have the vision, and they have the passion for doing this. You literally can't overstate, at least I can't, when I look at my portfolio to know that Satya Nadella is running a company, when I use **[unintelligible [00:55:56]** Schwab, Walt Bettinger running a company, Daniel Ek, these people, I don't need to watch anything they do. It's the equivalent of investing in Berkshire in a lot of ways. I trust the people. That's one part, I've always found interesting with people who invested in Comcast, and not that it can't still make sense of that investment, but if you think they suck at capital allocation, you don't really think Brian Roberts is smart, at some point, it's like, “Why would you want to partner with him?” I think that idea really should be-- especially, if you're concentrated-- Why are you going to partner with people that you don't trust, that you don't think are smart, and that are going to make smart decisions for the next 2, 5, 10, 20 years? It seems insane once you really start thinking about investing in terms of owning part of a business.

Bill: To be clear, you're long Comcast, right?

Francisco: Yeah. But I think I've always felt differently about Brian Roberts than other people have, and I think time has proven that they might be right, and I'm wrong. So-- [laughs]

Bill: No, I don't know about that, man, I don't know.

Francisco: No, no, no.

Bill: My concern for Mr. Roberts, as some nobody that knows nothing, and going up against a guy who's a CEO that has transitioned a company through tons of difficult times and made a great acquisition in the heart of the financial crisis, so this means nothing what I'm about to say. I am a little bit concerned that he's running a playbook from an era that has gone by. I'm just a little bit worried that some of the free cash flow is going to get spent in ways that I don't think are going to generate returns. But I don't know these Netflix results were-- I don't think that they were bad or anything like that but I think things have got to change, and if I didn't at least see a crack in the Netflix-- like the way that I see Netflix, I think that that would be a lie. I don't think it's a major crack, but maybe Peacock really can get people to pay attention to it. It's not a world I understand. I don't think that's actually going to happen. But maybe.

Alex: I own Comcast too. I think what scares people about Brian Roberts is that he's gotten the itch sometimes throughout his history of going after things that shareholders perceive as not shareholder friendly. I think he went after Disney in an activist-- in a hostile takeover that obviously wasn't successful around 2004, I think it was more or less.

Francisco: Yep.

Alex: It was going to be an all-stock deal, and when it was leaked in the Wall Street Journal article, his stock went down a lot. He wanted to stay in there. So, presumably, you would need to issue even more stock. That's fallen even more, to bid a higher price, and he wanted to do that right, and then you take a cable business that was showing signs of promise in the broadband business, and he bought an incredible asset cheaply, NBC Universal, but it did diversify him out of it, and you think if he might have been more focused in only cable that maybe he could have consolidated further. And then, I think the way he went after-- [crosstalk]

Bill: That was a good deal, though.

Alex: No, it was great deal. It was an amazing deal.

Bill: Yeah.

Alex: The way he went after Sky and 21st Century, he created a bidding war with Disney. It did feel empire-building-esque. But I think he makes the numbers work, and he's long term, and he's not going to be fazed really about what the market thinks, which is also good. If you trust him in his track record doesn't lie. He’s had an amazing-- He's been in that business all his life, and I think he's been even-- In some ways an accelerant to the vision that his father started in starting Comcast. When I think in that he's shares a story that in the 1980s, the LBO started buying cable companies and then he's like, “What? We should do this. We just lever up and we got synergies. These leveraged buyout firms have nothing. They shouldn't get all the free money.” That accelerated his inhibitions to do M&A.

But to your point, Bill, the game has changed a little bit, particularly on the NBCU side, and in terms of content going direct to consumer, and whether you really have the means to spend, and acquire customers, and keep customers, and entertain everybody and then go global, you have to pick and choose a strategy, and you don't want to necessarily become, all of a sudden, a very, very small fish in a huge ocean with whales that are Netflix and others.

Bill: Man, Netflix shareholders don't care at all how much they spend. At all. That's the thing that would make me really nervous going for-- If I was competing, I get that the buyback story is started for you, but if Reed came out, and he was like, “Look, we're pivoting,” people be like, “Reed’s God. We're okay with that.” I really think so, within reason.

Alex: [crosstalk] fans, he probably earned a little bit of leash. [chuckles]

Bill: That's what I'm saying. Yeah, so to compete against that guy is really, really difficult.

Francisco: Well, yes. He's gotten a lot of value out of that spent. To Alex's point, he's gotten that leash because he's executed. So, I think, Alex, you shared with me the AT&T investor presentation from I think a month ago or two, and then they shared basically, the projections for HBO Max's revenue in 2025, and Netflix’s content spend today, dwarfs that number. HBO Max's revenue in four years is dwarfed by what Netflix is spending today. It's a tough game. It's a very, very tough game. If you have that asset that's generating that cash, and you're spending it, and you're entertaining everybody, you have many shots and goals to keep people engaged, having ginormous hits. You're going to have a bad quarter, a bad year, but it's hard to see how Netflix doesn't stay dominant or a ginormous player, top two at least in this streaming game, because it just takes so much to catch up to that. Look what Disney had to do. They had to make a lot of acquisitions, they have to pivot the entire company, they have the best content assets in the world, and now they're catching up. But it's taken a huge shift in the company, and I think sprinkling some cash flow here and there is not going to get you to that level on Peacock’s point for with Comcast.

Alex: No, definitely.

Francisco: So, it would almost be interesting to see Brian Roberts say like, “Actually, Peacock budget, we're going to multiply that by 4 or 5 over the next few years, and we're going to be a huge player.”

Bill: I think the thing that's so tough-- and I know that movie catalogs have play and then you can put stuff on Netflix, The Office when it went on Netflix, and maybe Peacock too. I haven't seen Office numbers, so, maybe I'm wrong. But I'm just thinking about-- I'm going to personalize this with the podcast here, when the episodes drop, so let's look at episodes that were from January. All right, so, my girl, Jen Ross, only 18 people listened to her already this month. I guess it's only three days long. Six people a day. Come on, people listen to Jen Ross. Shomik's is at 11. Mike is at 14. For some reason, a lot of people are listening to Moses Kagan. Shoutout to you, Moses.

But you know what I'm saying, the catalogue, it does-- I don't think it spoils like, I think that these episodes are pretty-- I try to keep them relatively evergreen, because I try to keep the conversation pretty high level and not based on current events. But even the past episodes, they just don't get that-- for lack of a better term, they spoil quickly, even though I don't actually think they're like spoiling. Alex and I have talked about this. I need to figure out a way to highlight them, and I think I'm going to figure that out. I'm working on my branding. So, I'm not advertising much right now, because I don't want the coffee cup with my face, and then I switch up the brand that doesn't make any sense.

But the content can get lost in a sea of content, and it's like how do you have that spend not just spoil. I think you've got to have-- Maybe Peacock's much better than I give it credit for but when I used it over Xfinity's cable box, it was absolute garbage. This Xfinity app that I have is garbage, and I just don't understand it. I haven't seen HBO Max yet. I should probably try that product out, because hard to have an informed opinion. But I've got to be honest, man, Disney is dominating my life right now. I'm deep in the Star Wars game. I've been deep in Marvel. My kids will not shut up about Star Wars.

Alex: Tomorrow, Star Wars Day. May the fourth be with you.

[laughter]

Bill: Is that your favorite day in your house?

Francisco: Well, I don't think it's anybody else's favorite day. But it's a fun day for me. I guess.

Bill: What would it take for you to sell Disney? What do you think they'd have to do?

Francisco: In terms of the business performance, outside of valuation-- because obviously, you can talk me into selling anything, if it's high enough. I think in terms of business performance, I would have to think the TAM, or the opportunity for them to get Disney+ subscribers is not going to be 300, 400 plus over a 5- to 6-year period. Basically, a huge deceleration in terms of what even management is predicting, which is 240 million subscribers by fiscal year 2024, that ends up September. So, that's not super far away. Because I'm very confident-- And also, they lose their way a little bit in terms of the branded content, and that's also-- they benefit that because like, "Hey, maybe if Marvel has a low, Stars can pick up. Maybe they can get some hits out of 21st Century. Pixar hits a lull, Disney animation can pick it up and vice versa." So, they're somewhat diversified in that sense. But you sell immediately if you do not think 300, 400 million plus Disney+ subscribers is something that is very realistic. Because the stock today is telling you that they're going to hit those numbers and that you're going to have pricing power, that's going to generate a lot of cash.

I'm very, very confident that the parks are going to do pretty darn well. I think the three of us have discussed this, and I was actually extremely worried about the parks in March of last year, and even April. I was worried about the liquidity of the company, frankly. But then as we got to that June period, I think that to your point, Alex, we really recovered market’s losses, and I think there was a jobs report, if I think back in early June, that like people were like, “Oh, there's some reopening and there's jobs being created,” and I think that's when the market had a nice raise. Then over time, thinking about how reopening world, pent-up demand, this is actually premium, that actually they're not going to have to cut prices, it's going to be more expensive to go to Disney, especially by the time, it's super normal to fly without masks or anything like that.

So, I'm very confident on that side of the business, and I think what Marvel Studios has done is amazing. I think Star Wars has had some hiccups, but they've really picked it up, especially with The Mandalorian, and some new projects they have down the road, and Disney animation and Pixar doing extremely, extremely well. Pixar just won an Oscar for Best Animated Film. I think they almost always win. The content that they put out in that investor day, I remember I called Bill that night. I think Alex’s was-- I think it was his anniversary or something, so he was out of touch or girlfriend's birthday something like that. I called Bill, and I was like, “I think this is--”

Alex: Be careful right now, Francisco. [laughs]

Francisco: I’m sorry [crosstalk]

Alex: You are saying a lot of stuff.

Francisco: Edit it out. Edit it out.

Alex: [laughs]

Francisco: It was something important enough to miss the Disney investor day [crosstalk] in life.

Alex: There you go.

Francisco: So, it's very important. But I remember seeing, they were basically taking their entire company and look the best content has to go to streaming. Yes, we will have 5 to 10 movies that are very, very high value that go to theaters, but everything like-- you work for Disney making content, your best stuff, Disney+ and Hulu. So, if they can't get to those numbers of streaming that we talked about, then that's when you sell, and obviously that's not a perfect answer, because you have to see how things are over time and, and I told Alex the other day, it's inevitable that you'll have a quarter with a market that they were going to add more subscribers, and what they did in the stock will sell off it. It's happened a million times with Netflix throughout its history. So, you're going to have to live through those bumps. So, long, long-- [crosstalk]

Alex: I'd be curious to see if it's this quarter, based on what we've seen from some others, but--

Francisco: It could be, but they had their annual meeting, I think it was around February, or even early March, I forget the exact date, and they said that they were already at 100 million. So, it's not that far off from the end of the quarter. I would be surprised that there's a shock, but it could be very well-- or the next quarter, right?

Alex: Yeah.

Francisco: So, it'll definitely happen. It's inevitable, in my opinion.

Bill: It's amazing how quickly something like that will cause panic. But I get it. Things are trading on terminal values, and you've got to get there, but that's when I think the long term-- It's hard to decide when that is signal, and when it's noise. How do you guys think about that?

Francisco: Alex, and I've talked about it a lot, particularly with Spotify's earnings. They basically miss monthly active users by not a huge amount, and they lowered guidance by not a huge amount, and the stock's off like 16% in a week. I remember a few years back, Netflix said, churn was higher because of credit cards expirings and stock sold off enormously. So, that obviously was noise, and Spotify is TBD. It's really hard. I think, look, Bill, you famously bought Charter when they had--

Bill: I don't know about famously.

Francisco: Well, I think it's a famous story. [crosstalk]

Bill: Dude, I'm still nervous that I didn't see something that everybody else saw, because I was the idiot at the table.

Francisco: Well, you bought Charter after they had a quarter, and we are talking about variability of results of Charter, but they had just bought an enormous acquisition and integrating these cable systems is pretty complex. They had a quarter where some subs dropped off, and there were some integration issues, was not super insane, but the cause of that made numbers look a lot worse than expected, and the stock dropped. I was like-- [crosstalk]

Bill: Yeah, that got hammered.

Francisco: It was 20% in a day or something like that, and that was obviously noise. I'm pretty sure that drop caused the stock to go below 300, maybe mid-200, and the stocks at 670ish today, in that range. So, that wasn't that long ago, that was maybe three years ago. So, yeah, there can be a lot of noise in it. That's when you've got to be really confident about your knowledge of the business, and it's an art. I think businesses inevitably will go through periods of noise, but sometimes it's real, and you've got to get out, and it's a signal that something's wrong. So, one has to be on top of it. [crosstalk] I don't know [crosstalk] my perfect answer to that.

Alex: It is so funny to think about how-- I'm thinking about the comment you made before Bill about really buying high quality has a bright future, you're not going to go to some of the value-trap-type stuff, or the value stocks, or whatever you'd like to call it. But it's so funny to frame-- I think about Ben Graham with GEICO, where it was such a massive contributor to his return, but in the mid-70s, they almost went bust. I think about Disney, which is widely perceived rightly so as the best IP in the world, but 20 years ago, they were in a really tough spot. Oh, by the way, they just lucked into ESPN. It was never really the focal point of the deal and ended up being a massively valuable asset. So, I think about Microsoft, which obviously had a long history. That went from the greatest thing in the world, to a dinosaur to back to the greatest thing in the world.

Even for the best companies, it's funny how a relatively short period in the grand scheme of things of 10, 20 years, things can change a lot. So, I don't really know what the answer is, or what to do with that information, and the same goes for when you're betting on it becoming one of these types of companies, I would say, we're probably doing with Spotify or even with Disney-- [crosstalk]

Bill: The Twitter machine, bro.

Alex: What's that?

Bill: The Twitter machine that's [crosstalk] little bit.

Alex: Or Twitter. So, in some ways, I come back to an idea that you and I've discussed in the past where I think we both concluded that someone like Buffett looks at a bet like Kraft-Heinz, he places the bat, and then he doesn't look anymore. I don't really know how to do too much better than that outside of the Spotify article I just posted today, or whenever it was, I can't remember now, because I've written a lot of articles lately. You can pick your KPIs that you think are most important, and you can get an idea on what's truly the TAM, how many potential customers are there here? What are they really going to be willing to pay for this? And what can profitability look like if those targets are hit, and you do the best you can to track those things. The other thing I'd say is, when a company starts to fall short of those expectations, especially for an extended period of time, you better be able to find answers.

For example, in the case of Charter, you did find the answer. There's a reason you got paid for it, because you bought into what seemed uncertainty, but in reality, probably wasn't. It was just fear that was miscalculated, or however you want to put it. It's not always that clear. So, when it's not that clear, I think the answer is, you act a little bit more cautiously on position sizing, and you don't risk blowing yourself up on something that you're doing out of the sake of showing that you have conviction or making some stand that you don't really need to make.

Bill: [crosstalk]. Sorry.

Francisco: Oh, I was just going to say that I also think we're just a situation like that, like a company reports, and there's potentially real problems, but it's a solid business underlyingly, or at least a strong brand or service, it comes down to a point you said earlier, Alex, I like a strong management team.

There was the famous quarterly earnings that Disney had, they talked about ESPN losing subs, and that stock went down, and at least Bob Iger in his book basically said that that's when he propelled him to have a solution, and that pushed him into direct-to-consumer streaming. When you look at a Nadella, and you talked about how Microsoft, great thing in the world, dinosaur now, it's back the greatest thing in the world. Microsoft was a great asset. But when you put him there, he elevated probably initiatives that the company had that were vital for his future. He made Xbox more important, he made cloud more important, he put capital to work in those areas. He brought executives that were very focused like him as well. It's not crazy changes. It's not like Nadella is there with the Xbox team and making them do stuff. It's just making decisions that you're empowering, you're putting the resources to work in the right place. Great CEOs, good CEOs can definitely actually take advantage of those situations where the market's like, well, "The business isn't, hey, it's not doing as well."

Maybe Daniel Ek saying maybe two years ago that growth was basically going to top off, and that's where he's like, "Hey, we've got to push into podcasting." Then seeing Clubhouse emerge, "Now, we've got to push into live." Who knows whether those investments work out, but he's someone that's reacting extremely strategically, has a track record of executing extremely well, and that's all you got to ask for really, so, in terms of companies that great assets and great CEO. So, if you have someone there that probably think there's not a problem, not a problem and is more inclined to juice the numbers and lie than you know. There's a lot of companies like that and not necessarily frauds. You know what I mean?

Bill: Yeah.

Francisco: [crosstalk]

Alex: But the other thing too, good CEOs, great managers, they recognize points when they need to make decisions, and I think of something-- we talked about Comcast a lot. We don't need to just hit Brian Roberts over the head over and over, but as a point, you've made me many times since the Disney investor day when it should have been really clear what's happening here and what needed to be done, they've not done nearly enough, and I mean that neither direction. They could sell or they could invest aggressively. I contrast that with Rupert Murdoch, who saw where the puck was going, and made a deal to partner and get equity in a company that he thought had a bright future and that turned out to have been a massively smart bet, assuming they still own the equity but I have no idea. But point being that, making decisions even if they make you potentially look stupid, or you're giving up in a certain way, that can be incredibly valuable as well.

Bill: I doubt they sold the stock. I suspect Rupert doesn't like paying taxes.

Alex: [laughs]

Bill: It's figured out a good way not to do it. He may have some sort of a derivative transaction to get them out of some of the delta there, but I'm not sure-- [crosstalk]

Alex: The source of all great investments, avoiding gains. [laughs]

Francisco: Yeah.

Bill: Well, dude, I don't know, there's something to be said for some of this.

Alex: There 100% is.

Bill: I don't know how much to be said, and I don't know how much of that is late cycle. Something that I've been thinking about is, I have talked to a couple more of the growthy guys, and I've heard the comment that-- one of the best investors that one of these guys knows, I don't want to say it, because I don't know when the cadence of the pods are going to come out, I'm sure this will probably come out before that. But he was like, “Yeah, the best investor that I know doesn't even look at valuation.” There was a part of me that was like, “That is really offensive.” How can you even say that as an investor, that you don't care about valuation? But I think what that statement really means if there's-- This person must be good.

I think that the fact is, they're so focused on the stuff that we're talking about, like management and business quality, and capital allocation within the entity, felt like the valuation takes care of itself, if that makes any sense. Now, I don't know how anybody plays that game. It's not a game that I can play, but it's either a super late cycle comment, or there's something really to it, and I suspect that it's probably half and half.

Francisco: There's a difference between valuation and multiples, right?

Bill: Yes.

Francisco: Which in some ways it’s valuation and in some ways is it's not. Thinking about how big a business can be if you execute and relative to the market cap today, etc.,

Bill: Yes.

Francisco: That's different than saying, well, I'm not thinking about P/E ratio all day long.

Bill: Yeah, we're even current free cash flow.

Francisco: Or free cash flow multiples, or EBITDA multiples or whatever. That's not driving my thought every day or every month. So, in that sense, I would agree with that answer. I'm thinking about Disney and not constantly refreshing the multiples or things like that. I'm thinking about more like, “Well, Netflix quarter, does that mean, Disney is going to ground to a halt at a certain subscriber base a lot sooner than I think so?” You think about Microsoft thinking about that huge cloud opportunity in gaming and other verticals, and the deals that they're doing that I think Alex has written about it in his Substack, , which you should subscribe to--

Alex: [laughs]

Bill: This is true.

Francisco: That's how I'd separate, "Am I thinking about valuation, or am I thinking about these multiples and stuff that's really not super important in short term?"

Alex: Because they [crosstalk] about valuation.

Bill: Following up on Francisco's comment about your Substack, because I want to get into this a little because I'm curious. I'm Substack curious.

Alex: [laughs]

Bill: How much of what you're going to write about, and if you don't know, that's cool, is theoretical stuff like this versus just strict-- these are the businesses that I like, or this is a business that I, thought about what your product is in that way?

Alex: Yeah, I'm probably going to-- During periods right now, I mostly lean on quarterly updates and discussing what's already in the portfolio, and obviously, if there's any trading around all that, then I'll be discussing that as well. When it's non-earning seasons, I'll be doing a lot of new ideas and potentially stuff like that to the extent that I think it really adds to the conversation and helps people appreciate-- For example, I wrote an article about Spotify today, and part of the conclusion was about position sizing. That's something that I might explore in more detail down the road to help-- because if someone reads it and they go, "Well, I don't entirely know what that means. What are you thinking about?" I'd like people to have clarity on exactly what it is, and it partly gets in this conversation here in terms of thinking about position sizing on a situation where there's so much of a bet on what's going to happen 10, 15, 20 years down the road that when the price moves 10%, up or down, I don't know how relevant that really is. So, just explaining some ideas like that, that I think will be helpful to people, so they at least know how I'm thinking about it.

Bill: Position sizing is super underdiscussed in my opinion. I don't have any good answers on it, but I think it's underdiscussed.

Francisco: Not only initial position sizing, but then how do you think about something that you bought 10% and it's now 15%, or is now at 20%? Do you keep it's constant that percentage or you let it rip? There's so many ways you can discuss and think about position sizing, because in theory, if you make a 10% investment and it's going to work out really, really well, you shouldn't be trimming as it goes up, at least in theory. If it goes against you, and you're wrong, you should not be keeping it at 10%, which is something I think Alex alluded to earlier, if you get some huge drawdown in the stock price, because of business results, maybe should be a little bit more hesitant to add.

Alex: I don't think I've had a single situation where-- I'm trying to remember now. I don't think there's a single company, I can think of where I bought the stock and it went down on a quarter that was objective a bad quarter. Let's say, I thought it should be down 5%, it was down 20% or something. I can't think of a single situation where I bought into that and it actually worked out well long term. That could just be this cycle, but I just think that's-- I've heard similar sentiments from **[unintelligible [01:25:52]** and other people that they-- [crosstalk]

Bill: Bill Miller said this.

Alex: Or Bill Miller, yeah.

Bill: Shoutout to Bill. Thanks for listening. Come on the pod, dawg.

Francisco: You can't think of a single situation where you bought-- [crosstalk]

Alex: Not I personally.

Francisco: Yeah, but where you bought after a big drawdown and a quarter and it didn't work out well?

Alex: A big drawdown that really was justified. I was like, “Okay, these results really aren't great, but hey, it's down 20%. I think it should only be down 5% or 10%, because this is still a good business,” and on and on and on. I think it's just funny to think about as you think about position sizing, your natural inclination is to not let things get too big, and as things that you like get cheaper, typically, because they're going down, you want to add to them. The saving grace from all that for most people is that stuff in taxable accounts they can't sell, because they don't want to pay gains, and it probably, actually is a huge boon for most investors. Probably myself included, if I'm being honest.

Francisco: Sometimes, I think about ideal position size, it's really hard to say, I've done all this work, boom, 10% tomorrow. Versus done a lot of work, I really like it, there's maybe some stuff I got to check the box on that you really realize about a business after you follow it live and owning it for maybe 6 months or more, and to think well, I really, really like this asset, and maybe there's things I got to really understand if that market cap is justified. It would be 5%, but ideally, be 10. Then maybe you get those opportunities to get to 10. It's really hard to say like, bam, zero, I own none. Right now, tomorrow is going to be 10.

Bill: Yeah, I agree with that. You guys make fun of me for limping into stuff, but this is part of the reason why.

Francisco: But unless you really-- For example, you guys know I own Charter, and then there was a situation last year where I followed Altis USA for a long time, and it was really easy for me to ramp. I didn't really have to ease into it. It's a business I-- I know the industry really, really well. It's a company that I follow each quarter, and I follow the history about that company, and last year, like many things, it was sold off, and it was easy for me to ramp, because it's super in my circle of competence. But if when something is brand, brand, brand new, and it takes a long time to understand the business, truly understand the business of it, 0% today, 10% tomorrow, that's hard, at least for me.

Bill: When did we all go to Streamsong?

Alex: November 2017.

Bill: Yeah. So, the real Charter story for me is that I had bought a little bit right around there, was that-- When was that annual meeting where everything got **[unintelligible [01:28:56]**?

Francisco: Don't ruin the story for me, okay?

Bill: No, no, no. It's not that [crosstalk]

Francisco: Don't ruin this story [crosstalk]

Bill: No, wait. When did everything get all-- [crosstalk]

Francisco: You bought after that bad quarter. Do not ruin the story for me.

Alex: [laughs]

Bill: I'm not going to, but when were all those rumors coming out when all the bids are going on?

Francisco: Oh, I think that was around summer or late summer of 2017.

Bill: Yeah, it was right around like they had their liberty day. I had bought a little bit of GLIBA slightly before that. But it was only a 1% position or 1.5%. But I was like, "All right, I want to partner with Malone. I want to learn about these assets." And then that's why I was pretty ready, when 2018-- And then I bought then I put 8% more. I mean, that was a 10% position after that quarter, the one in June of 2018 is when I bought the shit out of it. I think part of that was because I was following and it wasn't as if I just went 10% in off the bat, right?

Alex: Yeah.

Bill: It was like, "I like these assets. I like these managers, I need to follow it," and then I was mostly ready when that happened. But that said, like I said, maybe I was the moron, but I do remember being like-- I think it was Winfrey, highlighted what happened as a key risk in 2015 or 2016. When did the acquisition get announced, all those acquisitions?

Alex: The acquisition got announced-- well, it's a long saga, but the final acquisition got announced in 2015. But Charter tried to buy Time Warner Cable a year before that, but Comcast--

Bill: Yeah, Comcast is involved in all that.

Alex: Comcast came in and tried to do the deal themselves, and that took a year to regulatory review. It was rejected, and then Charter came in, that was another year of regulatory but so yeah.

Bill: [crosstalk] I'm pretty sure if you read the 2015 calls, when the deal was under review, or something, Winfrey was like, “Look, this billing issue is a real risk. It's a key risk. This might cause problems.” Then in 2018, when it manifested, I was just like, “These guys said it.” So, I don't know. Maybe lucky, maybe good. I'm just glad I own it.

Alex: No, but that's a great example, because those months made you like you're reading the filings, you're seeing the earnings reports, you're seeing how the management is discussing, it gives you more time to study the history of the business, and then you got a situation where some random integration thing cost a couple of thousand subscribers and forgot the exact amount to churn off, stock drops 20%. You know the value of the business definitely didn't go about down 20%, and they're buying back a lot of stock. They're very confident what they're doing is at risk, they had sight of their price super well prepared to fix it.

Bill: They had just had bids, allegedly. I know it couldn't get done, but the assets had value.

Alex: Yeah. But imagine someone coming into that story that day, you're going with that skeptical view of like, “Actually, this might be a huge issue, and it could persist, and it'll take them time to ramp up about the business, the company, and where they came from.” So, it helps to get the knowledge. That's why Buffett, being so smart and knowledgeable about business and business history, I think is what gives him the ability, tying this back to the annual meeting, to act very, very quickly.

Bill: Yeah.

Francisco: I think super interesting about the meeting, speaking of Buffett, they started talking about GEICO and Progressive, and I'm trying to think back now. This has to have been-- I want to say this was five years ago, when the idea of telematics that Progressive first came up, and Buffett kind of, “We don't really think this helps with the underwriting decision.” It's so funny to think how it sounds like they've really just ramped up their efforts to try to do telematics in the last-- I think Ajit Jain said last year, and he was also very frank about the fact that they have definitely missed an opportunity here, and they're underperforming relative to Progressive specifically, because of that. It was just interesting to see the way he answered. It was also interesting to see Buffett. Some would say, cut him off, others probably say, help him out, because I think he was a little nervous up there, which admittedly, I would be pissing my pants if I was up there.

[laughter]

Francisco: So, it's understandable. But it was an interesting situation of him being really frank about something that I think admittedly-- I wonder in some cases, if Buffett is really close and has a lot of interest in certain businesses that he may be gets involved in decisions in a way that he probably should not be doing at this point. That might be reading into it too much.

Bill: Or gives a little too much deference, man. That is potentially some of the cost of that model.

Francisco: Mm-hmm.

Bill: No, I think if that statement is true, he would argue that the benefits far exceed the costs, but it would be hard to own an asset like that, have it make you so much wealth over time, and then be like, “Well, these guys over here are doing something, we should switch up.” I think I'd get my managers the difference to. After four years, though, maybe I'd be like, “All right, guys, we've done this long enough. The score is [crosstalk] be settled.”

Francisco: It was something they could test too. It wasn't a massive change in the business model, and it just seems odd in hindsight how the whole, and it didn't really get discussed for a while, or at least not in a big way. It's just funny to see that it culminated in this after-- It feels like it's been at least five years.

Bill: Yeah.

Francisco: I think there's a lot of positives and negatives about the model. One of the things, look he talked about healthcare. Buffet admitted that his companies weren't really super on top of getting efficiencies out of the healthcare system. I think Buffett thinks a lot about of getting capital back from any of these businesses, not all of them, especially, not Berkshire Hathaway Energy. But potentially a lot of the businesses actually could have benefited from pushing and investing more. I'm pretty sure Nebraska Furniture Mart could be way bigger, if they over time opened up more stores. You also have to be careful-- [crosstalk]

Bill: They got that one in Texas now but yeah.

Alex: Well, yeah.

Bill: Yeas, I agree with you. I’m saying they could have more than two.

Francisco: [laughs]

Alex: Exactly.

Bill: Fair point, sir.

Alex: They could have had 50 of these, right?

Bill: Yeah.

Alex: But I think his approach of like, “Hey, maybe give me back the capital more,” could hurt some of that, and maybe GEICO, thinking more about sending capital more to headquarters, maybe like, “Hey, we don't really **[unintelligible [01:36:06]** invest in telematics.” I'm not saying that's what happened necessarily, but you can imagine, sometimes you're thinking about costs being efficient, efficient, efficient, and you're not necessarily investing for an enormous opportunity if you have a headquarters that wants to allocate capital.

Bill: Well, dude, they talked about the companies that have these myths that they tell themselves that become true, and maybe it's possible that the myth that GEICO had was, we're so good at cost that we don't actually need to worry about investing in something that maybe like-- Progressive was taking a different strategic direction to get the ratio better. Maybe the myth that GEICO told themselves is we're so good at doing what we do that we don't need to worry about doing what they do. Maybe they just missed it a little bit. I don't know. It doesn't seem like it's a moat that's bound to stick forever. Like GEICO, telematics seems like something that GEICO could implement.

Francisco: Yeah, for sure.

Alex: Yeah. No, it applies the same idea of the railroad too when people talk about the **[unintelligible [01:37:10]** Some of it's transitory and you can implement PSRs as time goes on, if you think it's the right thing to do. So, yeah, it's more of a timing issue than anything else. It was just interesting how it was all framed and discussed about, especially for a business that's so visibly part of Berkshire.

Bill: Yeah, definitely is. Dude, Alex, what’s in the background there. Is that a note from Buffett?

Alex: Yeah, I wrote him when I was in college saying, “I don't really know what I want to do, but you're an inspiration,” or I've no clue what I actually wrote. But I guess was along those lines, and he wrote something back saying, “It was a very nice note and have a great day.”

Bill: Did he tell you to join him next year at his annual meeting?

Alex: No, I don't think he cared. I was a broke college kid. So, I couldn't spend any money downstairs. He didn't care if I was there.

Bill: I think he likes that. I think he likes educating the kids. Did he tell you to start a Substack?

Alex: No, he did not. But this was in 2010. I think so, I'm not sure Substack was a thing yet.

Bill: He's a visionary, sir. He thinks forward.

Alex: I don't know if tech visionary is what I described him as, but maybe.

Bill: That's fair.

Alex: [laughs]

Bill: So, tell me a little bit about how Substack works? Is it the pitches that it's a tech stack? Do you buy that it's tech enabled, do you think that it works better than-- I know that you said that Revue is not very good. Obviously, we’ll will get much better now that I've invested in Twitter, and that's bound to happen.

Alex: I should start by saying this, and some people told me, they liked my comment on Andrew's pod about Revue not having annual subscriptions. I've told Francisco this before. Somebody posted an article last week that I read. It was a really good article. It was on Revue. It's one of the handful that I've seen, and I've got to end the article, and they had the typical thumbs up, thumbs down thing, and I went to go click thumbs up, and they weren't actually buttons. It was just a picture. So, you couldn't click anything. [laughs]

Bill: Oh, no.

Alex: So, I don't know if that was just a onetime mistake, but yeah, whoever that was, I meant the thumbs up but yeah, but it didn't let me.

Francisco: How many newsletters do you guys know that are on Revue-

Bill: None.

Francisco: -that you guys know of?

Bill: I'm long Twitter, and if I started a newsletter right now, it'd be on Substack.

Alex: That when I read was the only one I've ever read on Revue.

Francisco: Bill, you don't know any newsletters on Revue?

Bill: No.

Francisco: I only know one that I subscribed to, and I don't know of any other.

Alex: Really?

Francisco: Yeah.

Bill: Yeah, they got a long way to go. I personally think that, was Substack strategy of helping writers to help them fund their life for the first year, it makes Substack a very, very compelling proposition, and I don't really think that Twitter shareholders really want Twitter to go that same route. This is the benefit of focus.

Alex: Yeah. From my perspective, Substack is just an-- I toyed with other ideas, and I talked to Scuttleblurb and a handful of other people, and I looked at basically trying to build my own platform with tools that make it really easy, and even with all that stuff, it was just too complex for me, and saving 5 or 10 points on a take rate just wasn't worth it at the end of the day. You look at something like Substack, you write an article in Word, you paste it in there, you've got to fix two or three things, and you're good to post it, and it's super easy to set when it's going to go out, super easy to set who it's going to go to. The analytics or fine. Everything about it from my perspective, it allows me to focus on what I want to be doing, which is researching companies, businesses, and then writing about them.

Bill: No, that makes a ton of sense. I would not spend my time dicking around with figuring out how to build out my own direct-to-consumer platform if it was built.

Alex: Well, the nice thing is too if Twitter wants to put some capital behind Revue, and if Facebook wants to get in this space, that 10% take rate from Substack might not last very long. So, it might get competed down anyway. We'll see what happens.

Bill: I don't know if we've asked this or if we've discussed this. If we have, people can hear it twice. What exactly are you doing on the Substack machine?

Alex: Yeah, I actually recorded a pod today. I was thinking about this a lot. First of all, I'm making everything I do completely transparent, and part of that was finding a way to differentiate the service. I thought about people like Scuttleblurb who I just mentioned, Andrew Walker, our buddy, Sleepwell Capital, on Twitter, there's a bunch of people who are writing pretty compelling research. For me, I thought the way I could differentiate myself is taking that next step and full circle on everything I'm doing as an investor. If I look at a new idea, and I tell you about it, and it becomes part of the portfolio, I'm going to walk through every step of that, and obviously, sometimes it might be the next day as it was with Spotify, or it might be something I look at, and I don't buy for six months or a year, or it could be anything. Then alongside, I'm going to obviously provide updates on stuff that's currently in the portfolio, and then anytime I make any trade, I'm going to explain both sides of the transaction, what I'm buying, what I'm selling, and why, and talk about the sizing. And then finally, on a quarterly basis, I'm going to just update, hey, here's what the position sizing are like, and I assume I'll throw in performance data at that point as well. So, it's just being completely transparent about what I'm doing, and I think there are certain people who value that.

Bill: How did you think about pricing it? As someone who's running a quasi-content business with no idea how to price whatever the hell it is I'm offering and just donate it.

[laughter]

Alex: No, it's a difficult decision, especially, when you look at the marketplace, and you see a bunch of people have Substacks that they charge $10 a month for. I talked with the two of you about it a lot, and I really thought about, one, what is the true addressable market here, and what do I need the numbers to look like for this to be a sustainable business for me? Which is obviously in the interest of the people subscribing as well, because if I can do this full time, then it ensures that the quality of the work is as high as I can make it. So, I thought about what in my head was a realistic TAM, or in terms of subscribers, one, two years down the road. I also thought about for someone who thinks like me in terms of their investment philosophy, they're essentially renting my brain or they're paying an equities analyst to work for them, I'm obviously looking at what I want to look at not what they tell me to look at, but still I'm giving them everything that I do as an equities analyst. I've been doing this for over a decade and have CFA, MBA, all that good stuff. So, I presumably have some knowledge about what

I'm doing. I just kept thinking more and more, and I thought the fact that everybody else is charging $10 doesn't mean that's what I need to do, and if I do what I'm doing well, even at $350 a year which is what I settled on, I think that's still really compelling value. Then, in terms of monthly-- [crosstalk]

Bill: Just wait, wait. I’m just going to ask you a quick follow-up. You mean $350-

Alex: Yes, not $300-- [crosstalk]

Bill: -a year?

Alex: [laughs] Yes. $350 a year.

Bill: So, I could have you as an equity analyst, and I would pay you a whopping $350 a year?

Alex: Yep, and you can reach out to pay. You can reach out to pay me anytime you want-- [crosstalk]

Bill: Do I have to pay health insurance also? Is there some hidden fee here that I don't know about? Because that doesn't sound like a whole lot of money.

Alex: That's included in your fee. I'll figure out the health insurance on my own.

Bill: Okay. I'm just checking, because I think a lot of these Substacks are way underpriced.

Alex: Yeah, I think that's definitely true. We'll see how it all evolves over time and whether or not people can have sustainable businesses at $10 or $20 a month. I think it eats into your ability to give the time and effort to it that you would ideally want to. In some ways, it's probably better to subscribe to Substacks where the person is actually charging a price that enables them to have some sort of a living.

Francisco: Yeah, I think something-- if I would chime in and help in seeing the value of Alex's service from the outside is that there's a lot of services that good investment ideas and great writeups, you can probably make a lot of money out of them. This is something really two things-- Well, a couple of things. It's investment ideas, but it's really portfolio construction. How are you thinking about events in real time, because someone can write a great investment thesis worth the money on Substack or whatever other service, but then that's it, they might not know, like, “Hey, I bought initially a 5% position, then two months later, became a 10% position or maybe I was wrong, and then I sold.” Really Alex’s service, you get that live real time plus a portfolio, and at least for now, it's also easy to contact you at least in Twitter DMs, unless they're being extremely blown up.

I think it's more than just, “Hey, I'm feeding you good content, which is good content,” but it's really in your brain, how you're thinking about everything in real time, and because if you do one trade, you send out a note, which is not necessarily a post. It's just a note to subscribers.

Alex: Yeah, especially now I have some cash, it's not as full of a note as it would be if I was fully invested which I will be soon enough. But yeah, every time I trade, I'm telling people, “Hey, before market opens, I'm doing this today. Obviously, it's not investment advice, but I'm telling you what I'm doing.” This whole idea is also part of the reason why I priced it the way I did with the monthly at $50 a month obviously, relative to $350, it's significantly more expensive than the annual plan, and the reality of why I did that is because I'm looking for people who want to be along for the journey of the evolution of looking at these companies and industries and thinking about how to invest intelligently. I still want to have a monthly option for people who feel the need to trial, because they might not be as familiar with my work as others, but I really want people who actually want to learn alongside me.

When I post something like, Jason Kilar thoughts on HBO Max in the future of media, for a lot of people, it's like, “Why the hell would I care about that?” But if you understand what I own, and the companies and industries I'm invested in, it plays perfectly into the things that I care about, and that I'm thinking about long term.

Francisco: Because it's different than some media analysts talking about what Jason Kilar or Kyler, not getting the pronunciation--

Alex: We’ll never know how to say it.

Francisco: We’ll never know, but it's someone with a media analyst, reporter can write something good about Jason Kilar, but then you write what you think the things that are insightful from his interview, and then to what you said, you apply well, like, “I own Comcast, and this how I think about that. I own Disney,” and how it changes your assumptions potentially, or doesn't, which it adds another layer that I just don't think others would provide. I'm very bullish on your service. That's why I'm--

Bill: Well, I have two things. One, I don't suggest doing things very often, but I will suggest signing up for Alex's service. Alex, where can people sign up for your service?

Alex: If you go to my Twitter page, you can find it on the what's it called, pinned tweet?

Bill: Which is what? What's your Twitter page, sir?

Alex: *@TSOH_investing*.

Bill: There you go. Who do you think your target market is? I feel like as somebody in my position, your service’s a no-brainer. I think for most investors that are interested in learning the amount of content and writing that you've put out on GuruFocus, I also think your service is easily a no-brainer. Are you targeting institutions also? Do you think that you're mostly going to go after the individual investor? How are you thinking through that?

Alex: Yeah, but I've had a fair number of people that it seems like or I presume that they either run a shop or they're an analyst at a shop. I'm not catering to that in any way, but that's been a common thing I've seen at least so far. Also, as you said, people like yourselves or people who are looking for idea flow or seeing how somebody else manages their portfolio, so probably individual investors who are obviously figuring out how to save for their family or managing a decent amount of money. I think it's pretty broad. It's for anybody who's I would think active, long term, high quality, potentially concentrated. If they don't have that approach to investing, if you're looking for something that has catalysts or someone who's going to be doing a fair amount of trading, I'm probably not the person for you. But if you're looking for high-quality businesses like a Microsoft or a Disney or Comcast, I've owned those names for five plus years. I'm looking for ideas like that, that I can own for a really long time that I think are going to generate outsized returns over the course of a full cycle.

Bill: And occasionally, Qurate, when you're ready to pick up dollars.

Alex: Occasionally, Qurate.

Bill and Alex: Yeah.

Alex: Now, I'm open-minded other ideas.

Bill: Have you sold out yet?

Alex: No, I still own a pretty good chunk.

Bill: Yeah, I do too. I'm not sure if I'm making a mistake on that. We'll see now. I don't know. Hopefully, she's buying like a fiend. I love you, Qurate customers.

Alex: The commentary from management suggests that we should have had a permanent step-up in what the base of business is, but we'll see whether or not those trends actually hold.

Bill: I think the hard decision in that entity is going to be Q2 or Q3. I have this version of reality in my head where these women have been inside for a long, long time, and they're just trying to get outside and away from the TV for a little while. That could put a decision to us about whether or not the habit has actually broken or not. I think that's going to be a hard call to make.

Francisco: Do we know who the new CEO is going to be yet?

Bill: I thought it was the lady from Disney that came over, but I’m not sure. I don't think it was. That's just what I think.

Francisco: Okay, got it. Got it.

Bill: Because it seems like it makes sense. She came in, merchandising seems to have really improved, they had the Baby Yoda gift. Don't you reward somebody like that with the CEO gig? She brought Baby Yoda to QVC.

Francisco: Did that look like-- [crosstalk] Yeah, a nice little layup, but she made the call and it paid off.

Bill: Yeah. There may be somebody, but she's who I would-- if I were a betting, man. I guess I have a bet down, but if I was going to bet specifically on that, I would think she has the inside track, but maybe I'm wrong.

Francisco: That seems like the logical choice versus if you had the more nothing against MBA executives, but more of the corporate strategy person being a CEO versus a merchandising--

Bill: Yeah, you need a merchandiser I think for sure. [crosstalk]

Alex: Speaking of bets on Baby Yoda. Speaking of bets on Baby Yoda, Francisco and I had a bad-- I don't even when this actually ends, we might be getting close on time that I had told Francisco that Apple would take a run at buying Disney before X number of years, and if it happened, he had to buy me a life-sized Baby Yoda which if I remember correctly, it probably costs five grand. I think I'm inflating it now. It was probably $300, but it was expensive.

Francisco: Yeah. Do you had the link somewhere that-- I think it was $300 or $400.

Alex: What the [crosstalk] I'm running out, I'm running out of time, though. I'm running out of time.

Francisco: It seems that ship has really sailed.

Alex: They had a chance to do it too. Right after the investor day, they could have done it.

Francisco: They needed to tackle that before Disney+ started to run.

Alex: Yeah. Well, from a regulatory perspective to Apple is going to be-- I don't know if big deals are in their future.

Bill: You wouldn't think--

Francisco: I think they could pull it off-- [crosstalk]

Bill: With Disney?

Francisco: I think they would need to spin off some assets. I think they could spin off ESPN, ABC, but the real--

Bill: Not sure that's the real competitive concern, sir.

Alex: [laughs]

Bill: Maybe. I mean maybe.

Francisco: No, no, no. But you-- [crosstalk]

Bill: But you carve off the assets, it'll have terminal value risk. Don't worry about Francisco as a Disney shareholder is willing to give those up.

[laughter]

Francisco: No, but what I meant is that, the heart of it is the App Store and Disney+ in my view. The parks don't matter. Theaters don't matter to Apple or regular-- Like Apple's not going to make Disney's competitiveness-- it's not going to change it in the parks of theaters or--

Bill: Yeah, that's fair.

Francisco: Certain aspects. So, it's more about the App Store dynamics with content, particularly Disney+, but I think if you get rid of a lot of assets, you can't argue that one app right necessarily is going to harm others and consumers, but I'm not a lawyer.

Bill: I haven't even looked at Apple TV since it launched and whatever that show with Jennifer Aniston or whatever was on, where she was some news reporter, whatever.

Alex: Getting morning show or whatever-- [crosstalk]

Bill: Yeah, its reasonably good, but then nothing else.

Francisco: I watched recently with my wife, *For All Mankind.* It has two seasons. It just ended, I think, last week or two weeks ago. It was a really good show. It gets better as it goes through, and it's the show-- I'm not going to spoil anything, the premises that basically the Soviets land on the moon before the Americans, and it's like how it changes history. Actually, I can tie this in investing, because it made me think a lot of-- because what happens in the show is that because the US actually had competition that was better than them, at least initially, in terms of space race and the moon, it made the US better, and technology advanced. In the show, you get to Apollo 20s and stuff and they're still landing on the moon. I think the US hasn't landed on the moon since the 70s or so.

So, having competition really on top of you, and strong competition raises your game, and it makes me think about business. Businesses that thrive in an environment of hyper competitiveness are real jewels, because we all want that Google search bar business that prints cash, and it's amazing, no one can touch him. But businesses like classic Costco, you've got to survive and crush a ruthless environment, I would argue Spotify, really just people on top of you all the time, and if you're extremely-- Walmart throughout its history. If you're really, really successful in that hypercompetitive environment, I think it shows something special about the business or management or both. Random thought about Apple, an Apple TV+ show that probably not a lot of people have watched but it's a good show and it made me think about business.

Bill: Dude, it reminds me of the **[unintelligible [01:57:11]** concept that I think its **[unintelligible [01:57:12]** capital has popularized, and I'm pretty sure Sanjay talked about it. I know Sean talked about it. That's a really interesting concept. I was thinking as you were talking, the commonality that I see between Spotify and Twitter is I don't have-- and this could be overestimating Twitter's asset duration, I'll cop to that if I'm wrong on it. But I'm not very concerned about either of those assets' duration. I'm concerned about how much cash they can generate off of that asset.

Alex: Fair. Fair.

Bill: It's a weird thing for somebody like-- We've all had to morph together. We've all talked through these things over a period of, what, now three and a half years together, and it'll be interesting to see whether or not we're placing-- this strategic shift in some of their assets is-- I think it's the right thing to do.

Francisco: But to be clear, only you own Twitter.

Bill: Yeah, no, I get it. I get it.

[laughter]

Bill: No, you're not. I get it.

Francisco: I'm not opposed. I'm not opposed.

Bill: Well, I think you have very legitimate concerns, and I'm not like-- I don't know, dude, part of me just likes-- I owe everything to Twitter, and I know that this is not a reasonable-- this is why I don't fucking run a fund, folks. I invest in some stuff that I want to own, because I like to own it. That's not a sufficient reason to run something on outside capital but for me, it is. I do need to be careful that I don't get overallocated to it, though, if that-- I do honestly believe that they can do some real things but I do not think that-- Actually, we'll see whether or not this ticket sales to Spaces thing works. The hard thing about all of-- Well, all right, let me take a step back, because sometimes when I speak, I'm very vague.

The hard thing about ticket sales to Spaces, or exclusively hosting on any podcast platform is fundamentally reach is really important. Now, maybe that reach can drive some super unique space that I can organize that I can charge money for tickets and stuff like that, but the way that I'm trying to run this podcast and whatever media little business I'm building, is I'm really trying to think through Bezos' be obsessed with your customer. But I view my customer as the guests of the podcast, and I think that if I give the guests the best possible experience, then the listener will have the best experience, and I think that the guest experience is restricted if I put it behind a paywall, and I think it's unfair to the guests, but I don't want to do that.

Francisco: A just a comment on, you're talking about Twitter Spaces doing tickets for a live event, two thoughts on it. As it pertains to your business is completely logical, because let's say you have a guest and you sell tickets, you make it interactive, it's an opportunity to ask questions, and then it's going to go for free on a podcast but if you pay for it, you had an opportunity to actually ask questions to you live and to your potential guests. So, there is a value to that, that it can be adjacent to your free podcast business for the user that's going to be on every platform.

My skeptical hat on in terms of Twitter, I think the tickets are extremely logical thing to do. My skepticism is, “Look, they're still scaling this. It appears that they're growing that well, and I think it's getting traction, but they just had earnings where the stock went down and they're leaking this to the press, and the product still needs work before it gets to a real scale.” I think it's a lot of these have crashed, recently have been buggy. I would just want to see them just crush it with Spaces, keep building and keep growing keep adding features and then think about tickets you have time.

Bill: Yeah.

Francisco: Usage is enormous. If usage keeps growing, then just pushing back the monetization of tickets a couple of quarters is not going to be the end of the world. [crosstalk]

Alex: Well, speaking of usage too, it looks like Clubhouse data was out today, I don't know if it's verified or anything, but April downloads were down about 90% from February.

Francisco: Yeah, I think [crosstalk] power data.

Alex: Whether or not that's something about the medium or share shift, we'll have to wait and see but still super early.

Alex: I think I agree with-- [crosstalk]

Bill: [crosstalk] Spaces, dawg.

Alex: Maybe.

Francisco: I don't think it’s Spaces.

Bill: Maybe.

Francisco: I don't think it’s Spaces. I think you log in on Clubhouse’s--. If you log in on Clubhouse you see way more rooms than Twitter open and a lot of the rooms on Clubhouse are trash honestly, but--

Bill: They are trash. I tried to find some stuff-- I saw Xzibit hosting a room, I’ve got love for hip hop and stuff, but I'm not trying to listen to exhibit have a discussion with people.

Alex: What was it about?

Francisco: Yeah, it's um-- [crosstalk]

Bill: The weed

Alex: Oh, nice.

Bill: I got in for two seconds and then I was like, “This is so stupid.”

Francisco: I think one night, I opened it and then there were three rooms talking about Tinder strategies. I'm like, “What?”

Alex: [laughs]

Bill: If you’ve got to login to Clubhouse to talk about your Tinder strategy--

Alex: Tinder.

Bill: Yeah, your Tinder strategy, you probably are a candidate for the upgraded Match profile.

Francisco: [laughs]

Alex: Funny story. When I was doing work on Match, I got, I won't say deep, but I've got familiar with the *r/swiperight* subreddit, and it's people who are literally just talking about like, “Here's the best thing to do, this new Tinder gold thing is BS. It doesn't work at all.” It's an interesting subreddit to go down some time if you're bored.

Bill: I'm not going to do that.

Alex: Well, if you research Match, you should.

[laughter]

Alex: Plus, you won't because it's too expensive. You don't like growth stocks.

Bill: It's not true. I like growth stocks with potential, not that I’m realizing their potential.

Alex: Fair. **[unintelligible [02:03:49]**.

Bill: [laughs] I think I have some growthy shit. How dare you? I own Facebook and Google. Those are growth stocks. Next.

Francisco: Nice. So, are you going to do a Twitter Spaces with tickets, Bill?

Bill: I don't know. I'd like to. Man, I don't really know. I don't know what the hell I'm doing. I think that--

Francisco: You want to monetize?

Bill: Yo, yeah. I'd prefer to, all else equal, I'd at least like to cover the cost.

Francisco: [laughs]

Bill: But again, it just needs to be the right guest and people that want to do it. I don't want to force-- I just want to do things that are right for the guests, and that's part of why in certain weeks, I have so many podcasts dropping. I don't want to hold back episodes, because I'm worried about the cadence that stuff drops on. If I record something, I want it to come out quickly, because I think that's the right thing to do for the guests, and if I overbook myself or down the road, have to say like, “Hey, I’ve got to take some time off,” that's the consequences to the strategy, but I don't know how to answer the question. I want to monetize. How should I monetize? You’re my strategic advisor.

Francisco: [laughs] I think it depends. I think, obviously, advertising is hard, but I think given the scale that you're growing to, it's going to be easy for you. We've debated subscriptions for you many times. But I think the live events, Clubhouse, Spaces type of thing is a real opportunity for you, because you can upload those later on, and free people can listen to it. But live, paying for the ticket and being able to ask you or your guests a question, especially if you cater it to towards special type of guests, an investor that people want to be able to ask a question to or to you, could add significant value. People will pay up for that, and selling 100 tickets at 10 bucks, it's not a whole lot, but for an hour, not bad. If it works out, I think you can slam dunk that in your first try. For an hour, it’s pretty good, and obviously, as you keep growing, and you keep testing formats, and eventually you can do one that gets thousands of people and it's priced a little bit more expensive, and bang. So, I think you really have an opportunity there.

Bill: Have we talked about doing the Netflix series of podcasts where I drop 10 episodes in a week, and then-- [crosstalk]

Francisco: Yeah, we talked about it.

Bill: What do you think about that? What if somebody sponsored a series, and it was 10 episodes? And it was thoughtfully pieced together.

Francisco: The thing is that I don't think you want it to-- You could debate this, but 10 could be a lot, because you don't want an overwhelming -- [crosstalk]

Bill: It’s 20 hours, dude. Maybe 30. What are people doing? Working? Get out of here. People don't work anymore.

Francisco: Is going to drive a lot of attention, and the key is that those 10 be really damn good episodes.

Bill: Of course, they'd be good.

Francisco: No, I'm not doubting-- [crosstalk]

Bill: Basically, [crosstalk] 10 of these.

[laughter]

Francisco: It's a great strategy. You're going to get a ton of attention. Barstool, I mentioned to you does this one called the Corp, and it's five seasons and they dropped them staggered a couple out of time, and I don't know if they still do it. Alex Rodriguez was big cat. That was a big-- [crosstalk]

Bill: [crosstalk] Bill Brewster to be fair, but for now. [laughs]

Francisco: Little by little, man. But it did get a lot of attention once a season launches. So, I think that could be a good strategy for you.

Bill: I just think it'd be fun. I don't know. With Alex in the Substack thing, I just want to do something that's different. I think that every Thursday, just have a pod, have a pod every Thursday is fucking boring. I don't like that. On the other hand, I don't want to train people to expect two to three episodes a week from me, because eventually I'm not going to be able to keep that up unless I actually get paid, because these things are relatively expensive to get produced.

Francisco: I think consistency though, and obviously, one a week, it's a huge time commitment from your part, but people look forward to them. They like them. They engage with them. Like, “Hey, you can take a couple of weeks off,” or whatever. You can do the season drop, and then get out of town for a while, but I think it's nice if you really enjoy the job that you do that come back every week for another episode.

Bill: Yeah, no doubt.

Francisco: I do think that-- I don't know why, I think Wednesday might be the more efficient day to drop, the more I think-- [crosstalk]

Bill: [crosstalk] fucking, you've always hated my day. Always.

Francisco: You and I debated this. Well, initially, you dropped Fridays. I told you it's the worst day to drop, but you didn't listen to me.

Bill: Well, this is why you're my strategic advisor now. I've given you a promotion.

Francisco: Thank you.

Alex: Shoutout to Andrew for dropping our pod Friday morning.

[laughter]

Bill: Dude, I tell you what, I like what he's doing. I think he's got a very cool niche. I like what he's doing. I like what Scuttleblurb is doing, and I like what you're doing, Alex. I think FinTwit's got a pretty cool intersection of guys that are sharp and that also to create stuff. Obviously, my homie, Greenbackd, Jake, but I think there's very creative vibe in FinTwit and it's cool.

Francisco: Yeah, there's an authenticity that the way you do things, the way Andrew does things. Scuttleblurb's the same way in terms of his writing, and there's a uniqueness in that, that is just so different than even reading something that's well researched, like an initiation report from a bank or something. Those are generally well done, but there's a way to talk about things that just hits differently for people who are doing this all the time like we are, and a bunch of other people are on Fin Twitter. You've been doing it part time, if you just really love it. But there's a way to cross that, that is very difficult to do. It's somewhat similar speaking of Barstool. It's similar to what they've done in the sports space or in the pop culture space in a way that someone like ESPN just doesn't really know how to respond to it. It's a different way of reaching the audience. It's just so much more authentic and so much more what they're looking for, is my sense.

Bill: Yeah, the interesting thing is going to be how much of-- Like we were saying with Spotify, I wonder how many people will continue to-- What I could see a scenario of the world being is a lot of people have an Anchor account, or whatever to host, and a lot of people do like a podcast to drop. But in order to actually have a professionally produced podcast, it's got to get big, or you've got to have enough money to just fucking light on fire, which I am in the process of doing. But it's not that much, and I actually don't mind it that much. I've gained more than I've spent, but it's weird. Long term, it's going to be difficult for people to survive, I think.

Francisco: No, that's why Spotify bought Megaphone too, because they want to be able to get every single independent podcast via Anchor, or many of them or most of them, and then also cater to the big networks that have a bunch of different shows, and programming, and hosts, and cater them that way as well. It's going to be interesting, because the flood of content is just beginning, really. If you listen to podcasts, which I did-- I've probably listened to podcasts for six, seven years, and the quality and the improvement in sometimes shows go away, and sometimes new shows pop up. Last year, a bunch of shows popped up including yours. I think that's not going to stop, and I think that's actually pretty exciting, but also a little bit overwhelming, because there's only so many hours in a day, so I got to start to shut down podcasts I used to listen to, because there's new better shows today. So, I think there were a lot of-- [crosstalk]

Bill: Yo, this goes to the Netflix thing that we were talking about. How quickly does the content spoil? That'll be interesting to watch. But I was bringing up earlier stuff about how many people have listened over the past couple-- to the older episodes. On the other hand, they have seasoned a lot. Those first ones dropped in what, November, and the total listening has almost increased by a third, if not quite a bit more on some of those episodes. Like Mike Mitchell's, people love Mike, anyway.

[laughter]

Bill: Y'all didn't know about him before. It's just interesting to watch. I do think there's a tail to it. I know I'm talking out both sides of my mouth. But to be fair, I was quoting May numbers and it's May 3rd right now, the timestamp is, so it's not totally fair to make fun of it.

Francisco: You know what, that tells me two things and more people are discovering your podcast over time, which I think is a positive sign, or more people are discovering podcasts in general and that brings more people in to be able to discover your pod. I think it's a really strong sign. It’s increased by a third of listening, and it's been, what, seven months or so, or six months?

Bill: Yeah.

Francisco: it's pretty darn good.

Bill: I told Alex. He and I have to whore ourselves out to macro and bitcoin. That's how you get ratings.

[laughter]

Bill: You start writing in anything macro, and then if you can tie in bitcoin, it's just like crack to people.

Alex: Yeah.

Bill: Fin crack.

Alex: Yeah. I’ve got an article about Comcast coming out first, but then I'll get to that bitcoin article next. That's the next one.

Francisco: A deep dive on the Robinhood, that’s one when it drops, is going to get you a lot of clicks.

Alex: There you go. I'll do a deep dive on the PR lady’s comments about Buffett and Munger. What they said about Robinhood and whether or not it's true. Well, we'll see, how it holds up.

Francisco: What did the PR lady say?

Alex: What’d she say, Bill?

Bill: I don't know, just some fucking stupid shit. She said something about the old guard is jealous of us or some nonsense. She used to work for Obama. I bet if Obama knew what she did right now, he'd be disappointed that he's even anywhere near her resume. I feel bad for her to be honest. That woman needs a paycheck, and she probably thinks that she found some cool company to work for, and she doesn't know that it's some sinister piece of shit. But that is what it is.

Maybe they can fix it, man, but I tell you what, when I watch that, my aunt, my uncle go up to do that interview with CBS or whatever, and the guy says, “I have no trading experience,” and they say, “Are you sure?" He says, "A little," and they say, "Oh, now you're approved for options." All right, a suicide wasn't enough? We haven't-- Come on, when is enough enough? I'm sure they'll get a nice valuation.

Francisco: You think about Schwab and I opened a Schwab account recently, and I asked for option approval and you get a bunch of questions, and the option approval sometimes takes-- there's a delay, it's not automatic. The fact that Robinhood just allows you like, "Yep, boom." A little experience, bam, a bunch of options. That's just like-- options are deadly for somebody who has no experience, and honestly, people who have-- [crosstalk]

Bill: Deadly for people that have experience.

Alex: Exactly.

Bill: Then the money is going to go to the venture capital people, and then they're going to say we're democratizing investing, maybe not. But whatever. I'm very on the record about this, but I don't know. You guys want to talk about anything else? What do you want to do?

Francisco: When are you selling Qurate? You talk about it a lot, so I just want to know.

Bill: Man, I don't know.

Francisco: Serious, but not serious question, actually.

Bill: Yeah, no, I have sold some around here. My cost basis is out of it. Let's see-- [crosstalk]

Francisco: How do you view that? My cost basis out of it? Which ties to the whole position sizing and I think it's more of a mental thing-- [crosstalk]

Bill: Well, dude, it was 19%, okay?

Francisco: At the peak or at cost?

Bill: At the peak.

Francisco: Okay.

Bill: No, a cost.

Francisco: At cost. Okay.

Bill: Before the transition or before the transaction. Then it was like post transaction, because I got 45% back or whatever pretty quickly. [crosstalk] I was like-- Yeah, that's right. Then, it was 11ish, ish, maybe 12. Then, it ran crazy after I was panicking on the phone with you the day that it sold off and I was like, "Oh, shit, might have been wrong here," and loud. That's not fun. Then it was like I had Qurate at 16%, 17% of my book, and I always had-- Even when I talked to Andrew and pitched it, I said, I thought 7% was roughly a number that I was comfortable with. Now, it's that 7%, 7.5%, the sheet I'm looking at says 7.5%. What is it? It's probably like-- it's a $12 stock, 1250, so that's $5 billion-ish, $400 billion outstanding, something like that.

Francisco: Do they report this Friday, too?

Bill: Yeah, May 7th.

Alex: I love how this one position that you and I overlap on, we actually both have pretty good holdings here, and we almost--

Bill: Yeah, it's a $5 billion company.

Alex: We almost never talk about it together. [laughs] We talk every single day, we almost never talk about Qurate. [laughs]

Bill: I'm not going to sell this quarter. I don't think I'd sell next quarter. I think what's going to happen this quarter is I think that the headline number is going to be pretty decent. They may run into some supply chain issues. I bet margins are under pressure a little bit, because you've got shipping costs and whatnot, although that may be pushed down to the vendor. So, I don't know, man, we'll see. I'm watching ordering frequency, and I expect some of the economics to deteriorate over time as they have to invest more in buying the leads. If it's Q2 or Q3 when the ordering like-- if these women don't order like they normally do, then I'm going to have a hard decision. Then, I've got a problem. But if they keep ordering, I'll keep holding.

Francisco: Do they disclose the amount of orders that they get from people that are watching Qurate outside of the bundle?

Bill: Yeah, they're beginning to give that data. I don't know if it's that specific, but they are giving you the way to triangulate what's going on. So, we'll see. It's not as easy to own as Charter. I'll tell you that, and there was a lot of tax implications to pulling off that trade that I'm not sure I love that, but it's a nice problem to have.

Francisco: Well, you can wait until it converts to long-term capital gains and it won't be a bigger deal, right?

Bill: Yeah, for now. But when it's mid teen size of my book, I don't really want to wait until it's long term. Then, you just make the economic decision.

Francisco: That's fair. I think the body language that you've got to watch out for is Maffei. That's the real tell. He always wants to put a brave face, but at the same time, he always nudges you in terms of how he's ready to camp out that asset as an investor, which I think is one of the benefits of having him on board.

Bill: They didn't buy any shares. That was a little bit surprising to me. If they give another dividend, I'll be over-the-moon happy, because I've never really that into the buyback. Yeah.

Francisco: I only saw it-- Sorry, go ahead.

Bill: No, they may have bought shares, and then issued a bunch as a bonus. They had a huge year last year. So, I can understand rewarding your employees in that kind of an outcome. So, I just need to see what happened there.

Francisco: I always thought that they would do the recap. They gave you preferred stock, they gave you cash, and I just always thought they would de-lever significantly, and that would be a way of the way-- [crosstalk]

Bill: The equity could get a pop.

Francisco: Yeah, it could get a pop for sure. The multiple stays constant, and you knew de-lever. But they didn't and the fact that they bought back some stock-- They announced buyback, but did they actually buy back?

Bill: I don't think they did, but we'll see. My sense is they did not.

Francisco: They fact that they announced at least showed that they were willing to get frisky about it. Now, it's a great investment, and I applaud you because you really put yourself out there on that one.

Bill: Well, I could have been pretty stupid **[unintelligible [02:22:18]** we may be resulting. I will say that they have about a billion in cash. When I said it was a $5 billion company, let's call it four, six, because I think they could probably do something with $400 million of that cash.

Francisco: No, for sure.

Bill: I don't know. We'll see. Time will tell. It was fun. It was fun to bet against the market and be right. Now, I'm just terrified that the market's right. It's not screamingly cheap. You know what I mean?

Francisco: What's your free cash flow number on it that you-- [crosstalk]

Bill: I've always said 500 to 750. That might be a little low, but--

Francisco: That's more conservative. I think that feels right based on when I did the work on it versus a billion plus.

Bill: Yeah, well, some smart people think higher than a billion, and you know what, if they're right, I'll be super happy. The way I think about it is, you're looking at an asset that has either somewhere between a 5- and 10-year duration here. That's tough to have a view on at this stage. I don't know that that's a sell, but to me, it's not a buy.

Francisco: How about you, Alex?

Alex: As long as Charter keeps adding this pay TV subs, it will be good. Well, I guess they did it this quarter though, right?

Francisco: No, they dropped a little bit in this quarter.

Alex: Yeah. The problem is that pay TV is in a very bad spot.

Bill: They have good position on Roku, man, home screen. They're calling you in.

Alex: Yeah. We'll see how these Roku-Google negotiations go and what that means, but we'll see how that game goes. Pay TV is in an incredibly bad spot given what everybody's saying, and I don't know what that's going to mean over time, but HBO Max is certainly going to do something with sports eventually. Comcast is, as far as I can tell, pulling back on sports in a pretty good way, which means those assets will go to presumably, Warner or to Disney, I would think. We'll see what happens. You could see a lot of content move off of linear here in the next handful years. So, I don't know how to handicap what that means.

Bill: The weird thing is that the bundle offer-- the value of the content, it is just eroding but the strategy within it is to just push price and just like whoever will pay, we'll just let them pay. It's like, “Ah,” it doesn't feel like it's going to last for too long.

Francisco: I don't remember the last time I watched entertainment content that's not live like news or sports on-- [crosstalk]

Bill: [unintelligible [02:24:57] the challenge, dawg.

Francisco: [laughs] Like an FX show or an HBO show on linear?

Alex: Right.

Bill: Yeah.

Alex: Remember when last time-- [crosstalk]

Bill: Does Disney+ have Archer on FX?

Alex: That would be on Hulu, right?

Bill: Yeah, that's what I thought. Archer needs to come to Disney+ in the adult section.

Francisco: But in many international markets, it’s on Disney+ via Star. So, the title when you’re opening Disney+ and you’ve got Disney, Pixar, Marvel, Star Wars, National Geographic, you got another title says Star in many markets, and that's where you get all the adult content. That's where Archer is.

Bill: Remember when I thought that they were going to fold some of that into Disney+ and that was completely wrong, because then they ended up leaning into Hulu a little bit.

Francisco: I think that's inevitable, though. The problem is the Hulu ownership structure.

Bill: Yeah.

Francisco: Which Comcast is a partner there. Apparently, they tried to go to Disney last year to buy out Disney, and Disney was like, “No, thank you.” Because you remember, Alex, that Comcast quarter where Brian Roberts-- this is last year I'm pretty sure, he's like, “Our direct-to-consumer streaming strategy starts with Hulu.” I'm like, “What?”

Alex: Yeah, when they're getting ready to sell.

Bill: [laughs]

Francisco: You're a minority shareholder with a put call provision--

Bill: Yeah, with a fucking collar around. [laughs]

Francisco: Yeah. That was clearly the time that they wanted to buy Disney out, but obviously Disney wasn't going to sell that.

Alex: Comcast has scale. So, they're fine.

Bill: Yeah, that's right. That's right.

Alex: [laughs] As Brian Roberts likes to say, “They have scale.”

Francisco: Okay, odds--

Bill: They do have that.

Francisco: For the record, odds, Comcast finds a way to merge NBCU Sky assets with Warner Media.

Bill: First of all, it's not going to happen. Second of all, you and I have been talking about this shit forever.

Francisco: For a couple of months, it's felt like forever, because of the pandemic. But it hasn't been a year, has it?

Bill: Okay, no. But I bet, a real guess is September, October last year.

Francisco: Yeah, that's right.

Bill: Yeah, that is fair. So, to the Johnny-Come-Latelies is to this idea, we were early on it. [crosstalk] We, I mean, Francisco.

Alex: I still think it gets done.

Bill: Yeah? They've got to do it quick, man.

Alex: If they can find a way to get it done.

Francisco: That's the issue is timing, because you're going to have these deals that make a lot of sense, but it's right place, right time. It could wait. This is one of these that it really can't-- The industrial "logic" of it falls by the wayside, the longer you go out.

Bill: If they do that deal, I think all bets are off. Then, I don't really know how to handicap anything, except for I would swim to Disney given the choice, because I know they have brands that people will stick with, and they have a release cadence that I think will keep people, but that would make me nervous for Netflix to be honest, and [crosstalk] substantially increased churn with that offering.

Alex: You feel okay owing only Netflix if that happens?

Francisco: It would be a huge competitive threat, I think, to Netflix. I would still feel okay with that team, and the focus that they have in executing on. Those two companies have stopped-- in a significant way, they still license some Netflix, a lot to Netflix, but they've stopped in significant way, and tried to build out their own services. But the thing about these deals is-- The positive for Netflix is they announce that deal tomorrow, it's going to take almost a year to close and a year after that to actually get the execution showing in the results-- not cash flow results, but actual -- Yeah.

Bill: Content whatnot, yeah.

Francisco: So, that's why time is of the essence. You delayed this deal three years, it's really four years for closing and five years for execution. Five years from now, God knows where Netflix is at. Maybe they can build a lot of the assets that those guys have. They announce it tomorrow, it's a different ballgame. I think Netflix has to seriously think about owning IP in house and that thing is hard for them as well, because obviously, companies that have really attractive IP are in conglomerates. But it's a formidable company. You think about-- they have the parks. They're going to have a big consumer products division. They're going to have a lot of IP. They're going to have global presence. HBO Max basically can't expand in Europe, because of Sky. They can't even go to Canada, man, because they license a lot of assets out to one of the Canadian-

Alex: Bell Media.

Francisco: -telco players. Yeah, Bell Media. So, you do this deal. It accelerates global expansion, content assets, sports, tech, consumer products, box office performance is concentrated fairly well. It makes so much sense, but I think it's more about the personal governance things about Brian Roberts wanting to break up his company, meeting of the minds in terms of valuation, and Jason Kilar is there, and you've got Stankey as the CEO of AT&T, does he want to let go of that asset?

Bill: He might, because that's Randall's deal.

Francisco: Sure, but also ABC is huge opportunity. Wouldn't he want to be involved in that asset in some capacity.?

Bill: Dude, you could own equity in a beast, and--

Francisco: No, it's not about equity. It's not about equity. It's about management teams being-- [crosstalk] Buffett.

Bill: But what I'm saying is you could spin this asset off, you could own some interest, I don't know if it'd be minority, majority, whatever. Put your guys in charge, let them run a focused strategy, and then you actually focus on the AT&T business, which is wireless and building out whatever your fiber strategy is. I could understand that as a CEO making that decision. They're already kind of rid of DirecTV, at least from his perspective. That deal's no longer on his hands. [crosstalk] focused organization there.

Francisco: Honestly, it's all about what gets him paid more.

Bill: Cut the dividend. Yeah. No, that right. I know you won't cut the dividend. That was a joke. I know.

Alex: [laughs]

Francisco: In the early days when I bought Charter, one of the things I thought was if AT&T cuts the dividend, that's a risk to Charter because they're going to have so much capital to invest and improve their wireline assets but that's another story. You've got Brian Roberts, right? Can you imagine him spinning off those assets, and then--? [crosstalk]

Bill: Yeah, that's who I think would be tough in the whole shebang.

Francisco: That's really, really tough. Does Brian Roberts just want to run the broadband business? I don't know. It seems like no--

Bill: It doesn't seem like you would buy the Sky assets.

Francisco: I think you need to include the Sky assets.

Bill: So, then to then shrink the company's focus a little bit-- things change, so maybe.

Francisco: Yeah.

Bill: But that would be tough.

Francisco: Yeah. But if they wait, this is all to Netflix's benefit. Disney reacted like-- In 2017 is what they announced that they were going to start these plans going, and we're now in 2021, and you're really starting to see that they have real huge potential. Apply that to a framework of these mergers. Things take time.

Bill: Yeah.

Alex: Yeah, definitely.

Bill: Except for Twitter's execution. Oh, snap, that's not true. That's a false statement.

Francisco: That's going to be something really interesting to follow honestly.

Bill: I know. But we'll all follow it together. Perhaps, we'll do a follow-up Space and charge ticket sales.

Alex: [laughs] You're buying more of that or no?

Bill: On that note-- I bought a little bit more, yes, after the dip. That's not financial advice, folks. For now, we're going to shut this down, and us three will chat very soon. The rest of the listeners will hear from these guys again. I hope you all enjoyed. Thank you, guys for joining, and we'll talk soon. Yeah.

Alex: Awesome. Yeah, thank you.

Bill: Sign up for Tiso's stuff, for real. By Tiso, I mean Alex.

Alex: Reach out if you want to talk.

Bill: All right. Have a good one, guys.