

GRANT'S CONFERENCE RECAP

| IOI Office Hours

Agenda



Themes

Speaker Run-Down

A Big Idea

Some Small Ideas

Themes



Beating the *Market* is Hard

Trump is insane

Humility is important

Central banks are making it up as they go

Speaker Run-Down



Jim Grant

“Treasury interest rates are the most important asset price in the market”

Background

Ex-Barron’s journalist. Started Grant’s Interest Rate Observer in the 80s. One of his books about the history of the US finance system described as being like a history of the interstate highway system from the perspective of the car wrecks.

Main Points

- Inflation is not being measured correctly (MIT: 3.6%)
- There is a disconnect between prices (inc.), money supply and lending momentum (dec.), government rates (low), and potential risk events like Le Pen winning France (high)
- DJT is the “avatar of tail risk.” He’s prickly when winning, what would it look like if things weren’t going his way? Meanwhile, he was critical of “bubble economy” but now Cohn wants to keep the bubble going.
- Huge amount of government debt impedes future growth – the multiplier for debt is negative “The dead hand of debt on the handle of production”

Speaker Run-Down



Gilchrist Berg

“When you’re long a stock, you want plenty of sources of optionality. For a short, you just want a single thing that will kill it”

Background

Worked for Julian Robertson. Founded Water Street Capital, funded by Robertson to become the earliest of the Tiger Cubs.

Main Points

- Topic of talk was “What I’ve learned”
- Great investors understand their edge, many started out as short-sellers (risk), need plenty of time to think (Buffett’s calendar always open)
- Characteristics of great investors: self-deprecating, thrifty, intellectually honest, talk about mistakes, highly principled, pride themselves on numeracy
- Shorting as a discipline and as an important source of long ideas
- The best outperformance anyone can ever really hope for is about 400 basis points; this requires “a few 10-baggers”

Speaker Run-Down



Jack Bogle

“The arc of investing is long but it bends toward fiduciary duty”



Steven Bregman

“The rule winds up just being a way in which Wall St. structurers figure out plausible ways to extract larger fees”

Background

Jack Bogle: founder of Vanguard. Steven Bregman: founder of Horizon Kinetics and portfolio manager of its largest fund.

Main Points

- Panel to discuss the merits of the Fiduciary Rule
- Bogle took “For” position, Bregman took “Against” position
- Bogle’s position is that the rule doesn’t go far enough: “If you touch anyone else’s money, you should be included in the Fiduciary Rule.”
- Bregman 1) agreed with Bogle that indexing is the best solution from a policy perspective, but 2) made good points about perverse incentives and unintended consequences.
- Bogle’s point of view is that corporations create wealth and this wealth is reflected in stock market valuations. People are worried about the investment business losing, but that means investors are winning an equal amount.
- Bregman talks about ETF composition and that banks sell expensive products under the guise of “risk diversification” (the tyranny of Beta)

Speaker Run-Down



Rob Arnott

“Bargains do not exist without fear. Our African ancestors did not succeed on the welt by running toward lions.”

Speaker Run-Down



Mathew Klody

“Trump is the last, best hope for the elites – a business-friendly populist”

Background

Runs a value-oriented equity long-short portfolio in Chicago.

Main Points

- Topic of talk was “What the Trump market has given us”
- Started with a great presentation of his own family’s background and growing up in steel town of Monessen, PA
- In 1960 elections, JFK won Monessen by 60%. In 2016, Trump won by an even larger margin. People there were tired of “socialism for the elites and capitalism for the working class” – banks get bailed out while manufacturing gets slaughtered.
- Believes that if Trump administration fails, we are at risk of some very serious problems in the US – replay of French Revolution?
- Favorite Short: Constellation Brands (STZ)
- Favorite Long: Arcos Dorados (ARCO)

Speaker Run-Down



Jim Litinsky

“Follow the Trumps”

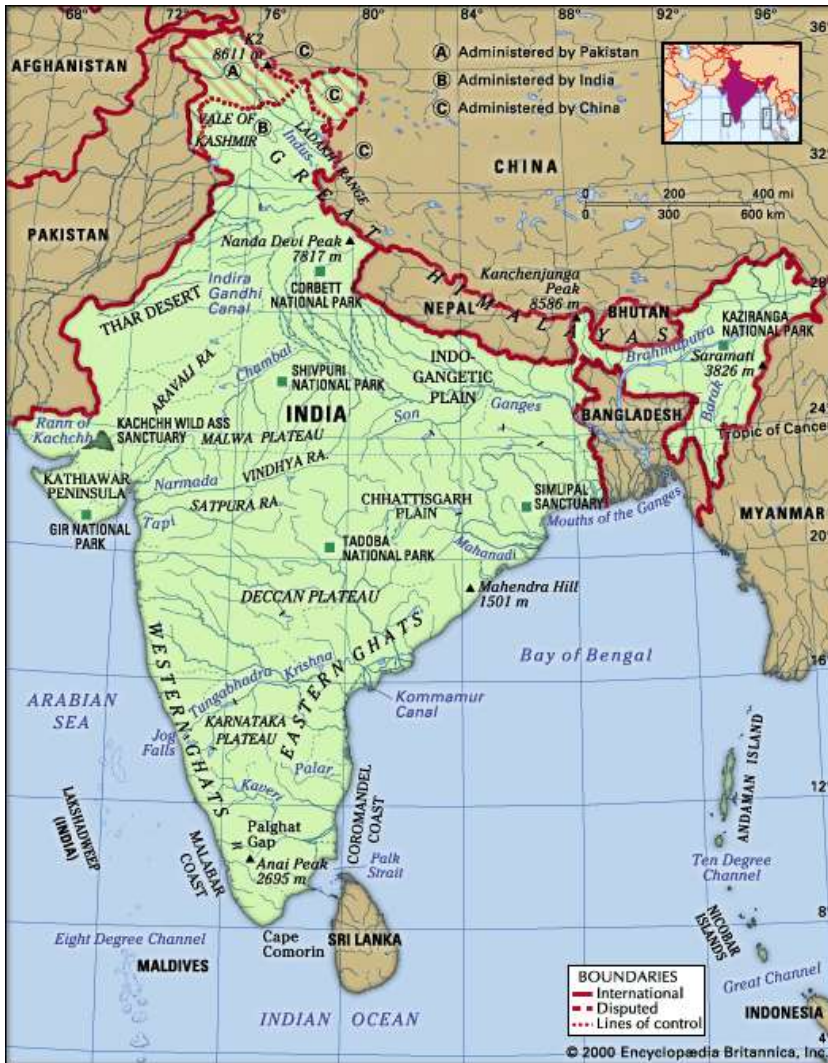
Background

Yale degree in Economics, Northwestern MBA/JD. Young up-and-comer HF manager out of Chicago.

Main Points

- Topic of talk was “Reagan 2.0”
- He went through some of the superficial similarities that were trotted out by the GOP during the convention about how DJT is the second coming of Reagan
- Proceeded to destroy that illusion with economic arguments. Almost all the conditions that existed upon Regan’s election are reversed for Trump’s
- Is there a place in the world where there may be a Reagan 2.0? Yes: India...
- I never thought I would say this, but I am genuinely interested in investing in India now

Big Idea



Attractive demographics – young, upwardly mobile populace

Modi's policies (and luck) lower the cost of capital

Modi's demonetization has pushed money into banks – spurred loan and mortgage growth

“India is perennially the investment for the next 10 years...”

Small Ideas



Express Scripts (ESRX) [SHORT]: Berg “This business shouldn’t exist”

Airlines (DAL specifically) [LONG]: Berg “Physical limits on number of planes at airports”

Exxon Mobil (XOM) [SHORT-ish]: Isaac “Earnings collapse hasn’t precipitated a share price fall – ETFs?”

Preferred shares of Korean companies [LONG]: Isaac known for ideas in far-away places

Cowen Group (COWN) [LONG]: Isaac likes that it’s trading at 65% of tangible book value

Vista Outdoors (VSTO) [LONG]: Isaac likes ammo manufacturers because it is a “flow” rather than a “stock”

Airbus: Wachenheim takes a contrarian position

Homebuilders: Wachenheim notes that business models now are improved over pre-crash

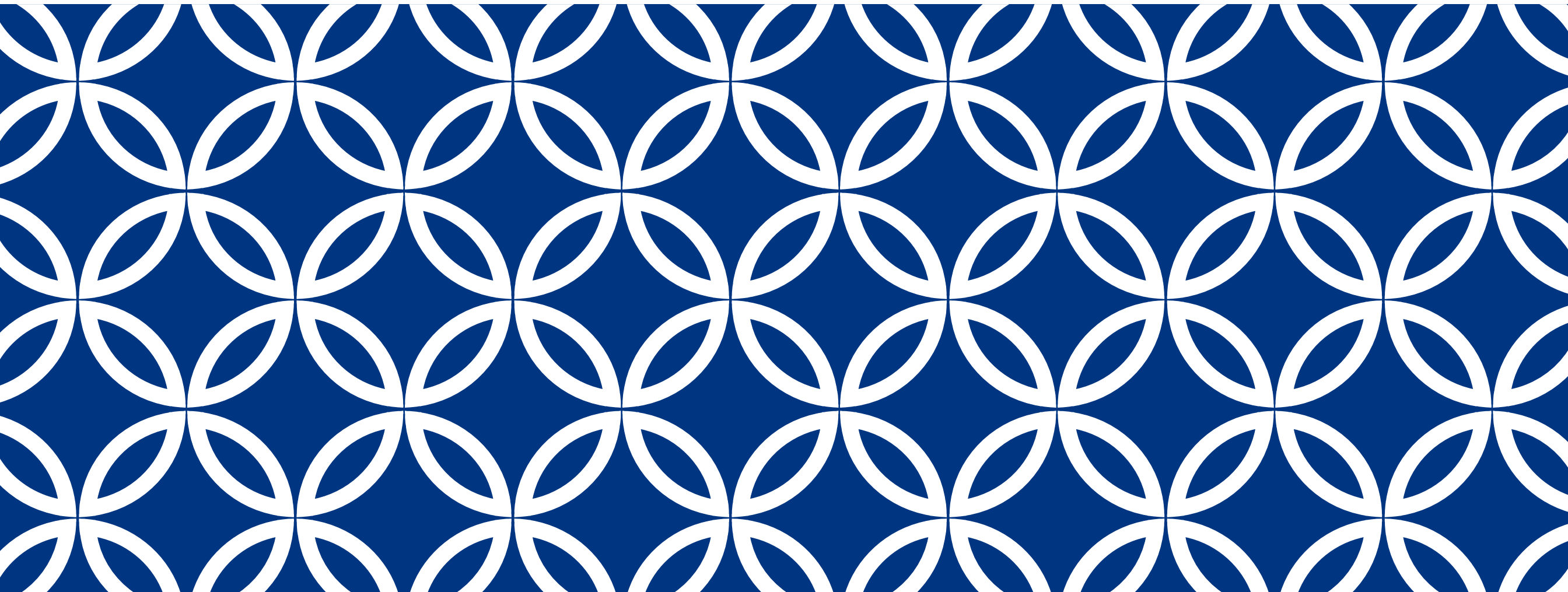
Constellation Brands (STZ) [SHORT]: Klody can’t figure out how Corona became a “premium” beer brand

Arcos Dorados (ARCO) [LONG]: Klody likes the largest franchiser of McDonalds in S. America

Cognex (CGNX) [LONG]: Royce likes this innovator in “machine vision” for production lines

Lincoln Electric (LECO) [LONG]: Royce likes this leader in robotic and automatic welding

MakeMyTrip (MMYT) [LONG]: Litinsky likes this Indian online holiday booking company



Q & A SESSION

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