

Selected Takeaways from Best Ideas 2017

I want to take a few moments to share personal reflections — both while especially timely and while the thoughts are fresh in my mind. Here it goes!

I personally love investment opportunities that distill to a “GoodCo - BadCo” pattern set, in which the blended dynamic leads to masked core financials, the divestment process serves as an inflection point (and creates a very well capitalized balance sheet) and the eventual pure-play GoodCo one day sparkles as the underlying realities are both easier to understand and the financials are easier to see via stock screens. (...*whew, all in one breath!*)

This happens to be precisely the type of “set up” detailed by Travis Cocke, in his presentation at Best Ideas 2017. Naturally, I absolutely loved his idea, but actually more importantly, cherished the opportunity to further understand *how* he approaches the art of intelligent investing. [Voss Capital](#) is most certainly an investment organization we will be watching, admiring, and cheering for - in the years ahead!

While the overarching theme of “GoodCo - BadCo” as a recurring opportunity is not a point lost to Matthew Sweeney, either, as several of his investments showcase similar reasoning — his investment idea at Best Ideas 2017 grabbed my eye as leveraging the power of time arbitrage. Matthew is fortunate to manage a partnership with truly aligned investors, and look for opportunities where patience is both a virtue and a potentially hidden asset, which he enunciated loudly and clearly. We’re proud to showcase his domain expertise and, again, are humbled to showcase the work of [Laughing Water Capital](#).

Scott Miller of Greenhaven Road recently shared with Latticework.com an insight-packed memo entitled [Stable Patient Capital Allows Pursuit of Invisible Companies](#). The *two* ideas that Scott explored at Best Ideas 2017 exhibit many of the characteristics enunciated in this essay — and are situations where, much like Matthew, a well-designed investment vehicle enables the execution of a well-reasoned long-term investment thesis.

Abhay Deshpande was a first-time instructor at Best Ideas 2017, and is a terrifically sophisticated manager I hope we will have the opportunity to showcase at our future events. While I am not *supposed* to have favorite ideas — the situation that Abhay explored, in quite extensive detail, was in my opinion one of the more eye-opening presentations, giving a real-time and real-world glimpse into the how a true professional pursues the art of investing into wide-moat, compounder-style opportunities. While there’s no question that all instructors spent a good deal of time and energy preparing for Best Ideas 2017 — it’s wonderfully obvious that Abhay, and his team, very much did their homework to deliver a presentation that was exceptionally crisp, clear, and sets a high standard for others to follow.

The Manual of Ideas featured Glenn Surowiec in our most recent issue, and it was wonderful to sit back and hear him reason through his investment process and thinking with an in-depth example. Looking forward to catching up, hopefully at [The Zurich Project](#)!

Best Ideas 2017 showcases the wisdom of 40+ carefully selected investment managers, over a two-day window. We aspire to excel at a few key moving parts, outlined (and hopefully explained) below:

1. Depth and detail is better than quotable ‘sound bites’ (which, inevitably and

- wonderfully, leads to some presentations that extend beyond an hour!)
2. Unlike traditional events, we have “unlimited shelf-space” (the challenge, as such, is to tap into the advantages of extensive breadth while remaining vigilant towards quality and selectivity)
 3. We take enormous pride in “curating a community” (meaning, attendees are actually participants – engaged, involved, and interactive)

The third element of the above is best exhibited in *live* events of Best Ideas 2017, in which instructors both share direct perspective with participants and engage in interactive participant discussion. Along these lines, John Lambert of GAM delivered a wonderful tour-de-force of fundamental research into a compelling value-oriented idea (depressed valuations, depressed expectations, highly interesting as get into the moving parts) and I thought one question posed by a featured instructor from Latticework 2016 (who will go unnamed) was quite thought-provoking, and John’s answer similarly illustrating. Again, this is what makes Best Ideas 2017 so much fun, and so interesting, to me.

While David Rolfe needs no introduction, John Mihaljevic in his welcoming comments pointed out that Wedgewood Partners is a firm whose 13-F filings The Manual of Ideas research staff closely watch; we classify Mr. Rolfe as a *Super Investor*. As David explained, his investment organization has been intimately familiar with Apple Corporation since 2005 (!) and David very generously shared his current investment thesis and addressed a series of thoughtful (and at times, surprisingly direct) questions. Similar to the live session with John Lambert noted above, I was amazed at the caliber of inquiry our participant community came up with, and I was similarly humbled by the opportunity to listen to spot-on answers from a veteran expert. Definitely a highlight of the day.

In Part 1, I touched upon my love for “GoodCo – BadCo” style investment situations. Over the years, I’ve also come to appreciate the nuanced (and difficult) art of “buy a balance sheet, sell an income statement, get there with the cash flow statement” — as an oversimplified framework that enables buying low and selling high. Naturally, Steven Kiel’s presentation grabbed my eye, as, in his words, summarizing his Best Ideas 2017 presentation:

“This concept is when a company with a strong balance sheet attracts investors focused on capital preservation and downside protection, but the company also has the potential to generate significant earnings and cash flow.”

As a small footnote as well, which I believe deserves to be mentioned, Steven is battle-tested: He is a veteran of Operation Iraqi Freedom and currently holds the rank of major.

Ian Clark, as The Manual of Ideas team has come to clearly realize and hopefully others do as well, has a remarkably sharp mind and a serious passion for understanding the finer-workings of key industries and sectors. Hopefully, we’ll see [this list](#) continue to expand! Ian, generously, shared his updated thoughts on the oil-rig industry and cycle, and explained nuances of power generation — a space he knows quite well. In addition to founding [Dichotomy Capital](#), Ian has first-hand operator experience with hydroelectric power production facilities. (!)

A good elevator pitch jumps off the page in the first few seconds, which, I think, is precisely the case below:

“The company is at least 2x larger than its nearest competitor. It has overhauled its capital allocation and operational strategy in the last three years..boasts a capital-light ‘services’ business model, converting 50-60% of adjusted EBITDA to FCF, and an enterprise client retention rate in the high-90s (in percentage terms)..can grow organically 8-12% for the foreseeable future while increasing EBITDA margins by ~50%, a true capital compounder in the small-cap arena (market capitalization of \$550 million, EV of \$640 million). The shares trade at ~8.1x/6.3x 2017/2018 EBITDA (our estimates... well above the Street), a substantial discount to intrinsic value.”

Naturally, I loved the opportunity to hear Charles Hoeveler get into the fine details and very much hope he'll return next year!

Alex Tsukernik delivered a live (and unscripted, in the greatest sense) presentation at Best Ideas 2017. When asked to share professional perspectives into Iron Ore and China, his response (or at least, what I recall hearing, which might differ slightly from what he actually said...): *“Oh, Fortescue was an interesting story...”* before proceeding to share direct thoughts drawing from serious first-hand experience in the sector. Which is, again, the joy of direct interactivity with our talented instructors. And, again, a similar level of remarkable cumulative and personal knowledge, when touching on possible opportunities in North American coal. Of course, the presentation was a treat as well...

Michael Melby, and his team, are looking for value in some very interesting air-pockets of opportunity, broadly overlooked by most mainstream managers...and when Michael finds a nice 'off-the-beaten-path' investment opportunity (both appropriately obscure yet obvious) — he *really* digs. It's one thing to read about a collection of deeply distressed assets with embedded earnings power, and another to enjoy in-depth conversation with someone who's walked the properties. Michael gave us a real treat, and the ValueConferences team remain grateful for his intellectual generosity.

I love the mix of managers at Best Ideas 2017, as there's opportunity in small situations and large situations — and wisdom to gain from both emerging managers and deeply experienced veterans. Shawn Kravetz deserves the latter title, and I loved learning from an expert who truly could say, “I've seen this before, and it rhymes” — certainly in general, and I think *potentially* with relation to the specific situation he shared.

Phil Ordway of Anabatic Investment Partners delivered a live presentation so detailed that: (1) he pre-emptively answered *almost* all the questions I was planning to ask before we got to the Q&A, and (2) a transcript of his presentation is effectively a “textbook” guide for uncovering opportunities. Phil nailed it.

As John Mihaljevic hinted at when welcoming Chris Crawford to the final live session of the day, we were graced with the interactive perspective of a professional manager who, *“Prior to co-founding Crawford Fund Management in 2009...was Managing Director, Portfolio Manager and head of the Boston office with Stark Investments, a \$10B multi-strategy global hedge fund. At Stark, Chris built the firm's equity long/short team and managed \$1.5B in equity long/short assets as well as a \$200M short-biased portfolio.”* Chris, in my opinion, surpassed already high expectations — with a very detailed presentation into an idea that has the workings of a “compounder” coupled with a solid paper-trail of resilience and aligned leadership.

Circling back to a prior comment about “textbook” caliber wisdom, Keith Weissman is uniquely passionate about teaching the art of intelligent investing – while practicing the craft from the front-lines. He got into the details of a fascinating spin-off situation, that in many respects reminds me of a chapter from Joel Greenblatt’s [You Can Be a Stock Market Genius](#).