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What Compels Us to Invest

This article is authored by MOI Global instructor Keith Rosenbloom, founder and managing member of Cruiser Capital, based in New York City. Keith is an instructor at Best Ideas 2018, the fully online conference featuring more than one hundred expert instructors from the MOI Global membership community.

Listen to Keith's session at Best Ideas 2018.

At Cruiser Capital we pride ourselves on being differentiated value investors. We have presented five times at online conferences hosted by MOI Global in the last four-and-a-half years, and our coming presentation on January 8th will be our sixth. Our previous discussions have related to investments we were making in attractive businesses with sound protective moats. The investments discussed with the dates of the presentations and the share prices at the time of presentation and at December 12, 2017 are shown in the chart below:

#	Date Presented	Investment Idea	Price at Date of Interview	Price @ December 12, 2017	% Change	Total Return
1	August 6, 2013	NutriSystem Inc. (NTRI)	$12.41	$51.45	315%	339%
2	January 11, 2016	BGC Partners (BGCP)	$8.90	$16.49	85%	100%
3	June 28, 2016	Fortress Transportation & Infrastructure (FTAI)	$9.00	$18.22	102%	124%
4	January 6, 2017	NV5, Inc. (NVEE)	$34.36	$55.00	60%	60%
5	July 20, 2017	EVINE Live Inc. (EVLV)	$1.06	$1.50	42%	42%

Recently we closed out of one of the investments, we intend to close out of another one and have reiterated our enthusiasm and positioning on the others. We will address each of those in our discussion on January 8th prior to discussing another investment and our thinking on various market opportunities.

What Compels Us To Invest:

Four key characteristics ultimately drive our willingness to invest in a given company.

1. Management Credibility
2. Clearly Defined, Easily Understood Growth Plan
3. Well Utilized Balance Sheet
4. Organic Exit Strategies

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Management Credibility

At the core of every investment is the capability of the people who are going to execute the plan. We believe great managers make average situations great and poor managers make great situations poor. We're quite aware that the definition of "great" can be backward looking and hard to evaluate prior to a manager doing "great things." This is why we think it's critical to research the backgrounds of the management teams you are investing with. We are consistently surprised (and often amused) when we see investor presentations and research reports that fail to discuss the qualifications of the management team.

One objective item we find useful in our evaluations of determining the caliber of management is whether their compensation is aligned with shareholder success. We like investing with teams who win when the shareholders win. A case in point is when Sealed Air Corporation (SEE) hired Jerome Peribere to become CEO 4 ½ years ago. When Jerome became the CEO of SEE the company's stock price was under $15 per share. He took the vast majority of his compensation in 3 and 4 year RSUs exercisable only if the stock was $30, $35 and $40. When he retires on December 31, 2017 the stock will be close to $50.

We are motivated to invest with management teams who are motivated with an owner operator mentality.

Clearly Defined, Easily Understood Growth Plan

We find it's important to remember basics: an aphoristic rule is that it's hard to make money when you don't know what you're trying to do. We like to evaluate business plans that require straightforward blocking and tackling. And ultimately we like to invest when the "degree of difficulty" is low.

Frankly, one of the benefits of investing in turnaround situations is you get the opportunity to invest with great, new managers who are articulating a clear path to improved profitability. The bonus is that in turnarounds you are often getting those opportunities at value prices.

Well-Utilized Balance Sheet

At Cruiser we believe that balance sheet's drive income statements, not vice-versa. We know that is an "old school mentality" – particularly in today's environment of "easy money" – but today's access to capital only underscores the point. With money cheap, you want to invest with managers who can generate a tangible Return On Invested Capital.

For those of us in the US who question how easy money is, we point to the European capital markets. For example, on November 23rd the French company Veolia Environnment SA issued three year zero coupon debt with a re-offer price above par. Per Grant's, "…three year bonds priced to yield negative 0.026%%. Even better: Investor demand for the Veolia issue was such that the offering was oversubscribed by more than 4:1. Said another way, three out of four investors who wished to lose money on a yield-to-maturity basis were left disappointed." The reality is when there's $11 trillion in sub-zero/negative yield debt in the world, and the average dividend yield on the S&P 500 is below 2%, it's easy to conclude we are still in a low rate environment. It's our view that we will continue to be for some time.

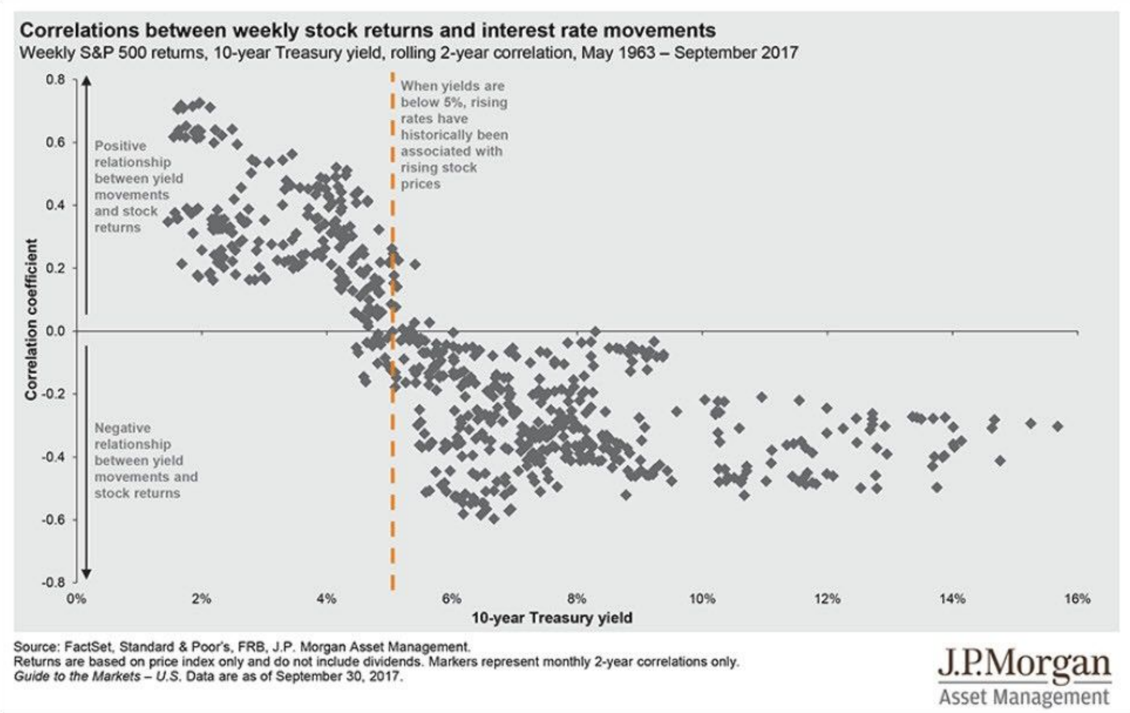
Organic Exit Strategies

We invest with companies that often compete with larger players either directly or in adjacent markets. It's clear often, particularly given the ultra-low cost of capital, that these companies should be a part of those larger players.

We like to clearly understand the competitive field so that when a company gets to a certain size, or achieves a particular milestone, it becomes evident that multiple paths to continued success exist. Sometimes that is becoming a part of a larger entity, often it is by buying a division or operating unit from someone else. And sometimes it means entering an adjacent market with an inherent competitive advantage.

How Today's Capital Markets Impact Our Thinking

Literally every day for the past 8 years there is an article or talking head speaking about the risk to markets from impending rising interest rates. And yet, the data from May 1963 until today supports that measured increases in interest rates from low bases, specifically below 5% have historically been associated with rising stock prices.



An intriguing potential outcome in the current economic and political environment is the real possibility that for the first time in many years the US economy will have fiscal spending to accompany its easy monetary policy. With the backdrop of Hurricane's Harvey and Irma, the devastation in Puerto Rico, bi-partisan discussion on intermodal infrastructure spending, etc., should fiscal spending occur, the earnings outlook for many of the companies we follow and like will dramatically improve.

An integral part of our mission at Cruiser is to determine the difference between value opportunities and "value traps." When we find value opportunities we want to own them, and when we find value traps we usually short them.

But "value opportunities" are much more than companies simply trading at "cheap multiples." They have inherent characteristics which computer driven algorithms cannot screen for; specifically we believe that quality people executing on well determined business plans can create enormous value.

We actually think it is advantageous to Cruiser that the majority of public companies with market caps under $10 billion have 30% or more of their shares held by rule based index funds who – by their mandates — don't meet with management teams or model out businesses. We think this provides a target rich universe of potential investment opportunities for Cruiser.