

Focused Compounding Capital Management

Managed Accounts

The People

Geoff Gannon

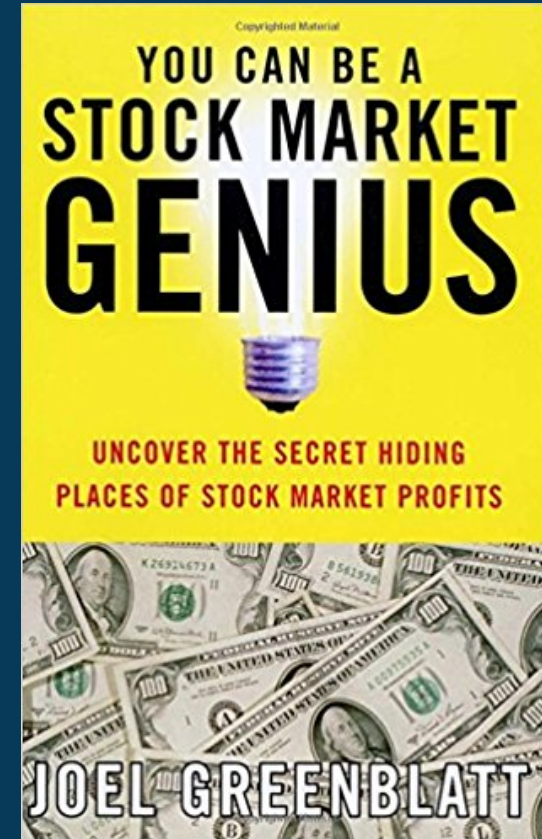
- Co-founded Singular Diligence, a popular investing publication
- Co-founded Focused Compounding, a subscription based investing idea website
- Co-hosts the Focused Compounding podcast on iTunes

Andrew Kuhn

- Co-founded Kuhn Capital Partners, a SEC Registered Investment Advisor
- Co-founded Focused Compounding, a subscription based investing idea website
- Co-hosts the Focused Compounding podcast on iTunes

The Strategy

Our bible is Joel Greenblatt's "You Can Be a Stock Market Genius"



Pillar #1: Don't Diversify the Way Others Diversify

“After purchasing six or eight stocks in different industries, the benefit of adding even more stocks to your portfolio is small.”

- You Can Be a Stock Market Genius

What this means to us

So we won't. You will never own fewer than 6 nor more than 8 stocks.

Pillar #2: Look Where Others Aren't Looking

“If you spend your energies looking for and analyzing situations not closely followed by other informed investors, your chance of finding bargains greatly increases. The trick is locating those opportunities.”

- You Can Be a Stock Market Genius

What this means to us

Focus 100% of our energies on overlooked stocks

What is an Overlooked Stock?

- Spin-offs
- Illiquid stocks
- Stocks emerging from bankruptcy
- Over-the-counter stocks
- Stocks that don't file with the SEC
- Stocks that don't provide information to the public
- Net cash stocks
- Net-nets
- Near net-nets

Illiquid Stock: Bancinsurance (BCIS)

- Read Geoff's April 7th, 2010 letter to the Bancinsurance board
- Read Geoff's July 23rd, 2010 letter to the Bancinsurance board
- Bancinsurance was a niche insurer that once traded on a major exchange
- The company expanded into bail bond insurance
- This resulted in: large losses, the auditor resigning, an A.M. Best downgrade, an SEC investigation, and the stock de-listing (going OTC)
- After a turnaround, the stock still traded for 2/3 of BV and a P/E of 6
- Once the SEC dropped its investigation, the majority owner offered to take the company private at \$6 a share
- Within a year, the buyer raised his price to \$8.50 and the company went private
- Even if you bought after the original \$6 offer, your annual return was over 40%

Spin-off: BWX Technologies (BWXT)

- Read Geoff's pre spin-off report on Babcock & Wilcox
- June 30th, 2015: Babcock & Wilcox stock was about \$25 a share
- 3 years later: BWX Technologies is at \$68 a share
- Meanwhile: Babcock & Wilcox Enterprises is at \$3 a share
- So, a \$25 investment in 2015 became worth \$71 in 2018
- However, sticking with the wrong side of the break-up gave you a huge loss over 3 years
- While going with the right side of the break-up gave you more than a 40% compound annual return over the last 3 years

Spin-off: NACCO (NC)

- Read Geoff's first October 17th, 2017 write-up on NACCO
- Read Geoff's second October 17th, 2017 write-up on NACCO
- Read Geoff's October 19th, 2017 write-up on NACCO
- Read Geoff's November 3rd, 2017 write-up on NACCO
- September 29th, 2017: Hamilton Beach (HBB) spun-off from NACCO.
- NACCO is the single biggest position in Geoff's portfolio.
- His average cost is \$32.50 a share.
- NACCO will probably be one of the stocks in your account on day one.

Illiquid: Keweenaw Land Association (KEWL)

- Read Geoff's March 22nd, 2018 write-up on KEWL
- Read Geoff's March 26th, 2018 write-up on KEWL
- Market cap is over \$140 million
- However, the average daily trading volume is only about \$200,000
- This is also an example of an OTC stock that doesn't file with the SEC
- Cornwall Capital (26% owner) recently won a majority of the board
- Timberland is a good asset to own long-term
- The stock does not trade above the value of its timberland
- There are catalysts: sale, REIT conversion, mining rights, etc.

Stocks Emerging from Bankruptcy: Hostess Brands (TWNK)

- Read Andrew's October 9th, 2017 write-up on Hostess (TWNK)
- Market cap is \$1.7 billion (so, nowhere near a microcap)
- However, the stock is still not that well known. Let's look at why that's the case.
- In 2012, the core business that is now TWNK entered bankruptcy
- In 2013, the current chairman and an LBO firm joined together and bought it
- In 2016, Hostess went public by merging into an already public "special purpose acquisition company" (SPAC)
- So, Hostess Brands also qualifies as a reverse merger
- There are publicly traded warrants that expire in late 2021 (about 3.5 years from now)
- Odds are you won't see Hostess in your account on day one due to its heavy debt load
- Hostess warrants are the kind of investment Joel Greenblatt would have bought
- But we tend to avoid leveraged stocks more than most value investors

OTC Stock: Computer Services, Inc. (CSVI)

- [Read the April 15th, 2018 write-up on CSI](#)
- This is also an example of a stock that doesn't file with the SEC
- Market cap is \$675 million
- However, the average daily trading volume is only about \$300,000
- CSI is a core processor; its clients are small U.S. banks
- Peers are popular stocks: Fiserv (FISV), FIS (FIS), and Jack Henry (JKHY)
- CSI's P/E is 25% lower than those peers despite having zero debt
- The company has raised its dividend for 45 straight years
- P/E is overstated right now because it used to pay a 40% tax rate

Net Cash Stock: Pendrell (PCOA)

- Read Geoff's March 13th, 2018 write-up on Pendrell (PCOA)
- Read Geoff's March 14th, 2018 write-up on Pendrell (PCOA)
- This is both an OTC stock and a stock that doesn't file with the SEC
- The stock trades for \$690 a share
- When it stopped filing with the SEC, it had \$758 a share in cash
- Pendrell has about \$2.5 billion of net operating loss carryforwards
- It will eventually use the \$758 a share in cash to buy a business
- Whatever business it buys won't pay taxes for the next 14 years

Spin-off: Entercom Communications (ETM)

- Read the May 2nd, 2018 write-up on Entercom (ETM)
- This is not a normal spin-off; it's a "Reverse Morris Trust"
- CBS shareholders could opt in to accepting CBS Radio shares
- CBS Radio was then merged into Entercom (ETM)
- Entercom is the acquirer of the CBS Radio spin-off
- However, CBS Radio was actually about 3 times the size of Entercom
- Entercom insiders (the family) have been gobbling up shares
- ETM also bought back 2% of its own shares in a single quarter
- Basically, this is a publicly traded radio station LBO (Debt/EBITDA is around 4)
- It looks like an excellent speculation (big upside) but has a very slim margin of safety
- ETM might appear in your account – but this is literally the riskiest thing you'd ever own

Near Net-Net: Tandy Leather Factory (TLF)

- Read Geoff's report on Tandy (TLF)
- Listen to Geoff and Andrew's podcast on Tandy (TLF)
- At \$7.85, TLF is priced about 65% above its net current asset value
- Tandy trades on a major exchange (NASDAQ)
- Market cap is \$70 million
- But the daily average trading volume is only \$80,000
- So Tandy also qualifies as an illiquid stock
- Tandy is an illiquid microcap but neither a "special situation" nor OTC stock
- TLF is about as plain vanilla a stock as we'd ever consider for your account

Next Steps...

Set up a meeting by phone or email:

- info@focusedcompounding.com
- 469-207-5844

Set up an in person meeting:

- Dallas, Texas