*Doc Eifrig:* All right folks. Our next speaker, you saw a little bit of repartee between us. Bryan Beach is a former big four auditor and certified public accountant who holds a bachelor's and master's degree in business and accounting. He spent six years in public accounting, and then a number of years as a controller and director of publicly held software companies.

He's also run his own accounting consulting practice. And his specialty is his unique ability sift through SEC filings, finding both opportunities and red flags. His unique experience in both creating and auditing financial reports allows him to see things most investors miss.

Bryan is the editor of Stansberry Venture Value, an advisory service focused on small cap value investing. He's also a senior analyst and contributor to our flagship product, Stansberry Investment Advisory, and he also works on the bond focused Stansberry Credit Opportunities.

Now, I'm gonna see you folks tonight, but I'm gonna let Bryan close this down because I've been invited to go to a sound check over with Lionel Richie. And he's a longtime fan of mine, so I can't pass that up even for you guys. I'm sorry. I'm hoping he's actually gonna accept the bottle of my wine as well, so I'm gonna take that. But thank you everybody, and please welcome Bryan Beach.

*Bryan Beach:* Who's got my notes here? Thanks Doc. Oh, Doc, \_\_\_\_\_. Yeah, you left your name tag. You can go. Don't leave that up here. Okay, guys. Last speaker of the week, I'm supposed to go over here. I really appreciate you guys sticking it out here for the last one.

As Doc said, I am the Venture Value editor. And what he didn't mention is I actually sat in your seat for years and years and years as a subscriber. I still go to these conferences as a subscriber for other news newsletter publishers. And I kind of know the drill, you come here and you listen to editors. A lot of us like to talk about the things we got right and the things we did well and our best picks. And that's always fun to talk about and to hear about.

Last year I did something different. I had a – This was my title last year, The Biggest Mistakes in Venture Value History and How You Can Learn from Them. I'm gonna actually continue that this year with another mistake in Venture Value history. Why do I do that?

I don't really like to wallow in pity here, but I'd learn from my mistakes. When things go right, I don't really learn anything, but I really learned a valuable lesson from one of these picks and I wanted to share that with you and part it on you and let you know that there's something really exciting coming out of this mistake. This is a presentation about SPACs.

So you guys probably saw a lot about SPACs over the last year and a half, starting in 2020. These were some of the headlines you were seeing.

What is a SPAC? One of Wall Street's hottest trends, here's how they work. Hard investment trends, should you buy these companies and taking over Wall Street. These are the kinds of things we were seeing in 2020 and beyond. SPACs actually date back to kind of the 1800s when they were called blind pools, I believe, and then they became called blank check companies, but this concept's been around for a while. And this chart is kind of telling, and it's very important.

SPACs had a pretty bad reputation, and it was for the people who couldn't go public in the normal way in the IPO, and so it got kind of a seedy reputation. There weren't many SPACs you can see back in the 2014, 2015, there's ten or 20 of these things a year. All of a sudden in 2020, if you look at the blue line, there were something like, what is that, 200 and something SPACs.

There's been another 400 this year in terms of money raised, which actually that's the blue line is the amount of money raised, 130 something billion already this year, 83 billion last year. If you look at from 1880 to 2019, all the money ever raised in SPACs and add it all up, it's not as much as was raised in 2020. And that's why we saw those headlines last year.

So the message was these things aren't that shady anymore, this time is different. But one of the things you're starting to see as we head into the latter half of 2021 is these kinds of headlines. The SPAC market is crumbled, SPAC \_\_\_\_\_ put on ice, slammed on the brakes, another bubble that's deflating, bursting of the SPAC bubble. And so I wanna talk to you about this because I learned a lot kind of watching this bubble inflate and deflate, and I've actually been writing about SPACs kind of way before 2020, at least since 2017.

And just for context, I'm gonna back up and kind of walk you guys through how a SPAC works. A lot of you guys already know this, but this is good for maybe people who need a refresher or people who aren't familiar with how this works. So basically we have a sponsor that sets up a publicly traded shell company, we'll call our sponsor Joe, for example.

So Joe works hard to raise money from people like you to put money into his shell company so can go buy a target or acquire a different company. And you guys are smart and you say, "Joe, what's in it for me, or I might just gonna park my money with you?" So he'll give you some freebies, like warrants, which are options that you can use to maybe buy the shares for a cheaper price if his target takes off.

So you'll take these freebies. Also, he'll say, "You can take your money back if you don't like my target and you can keep the freebies anyway." So then Joe goes and looks for a target company to acquire. And if he finds it, maybe finds a company called Acme Widgets. And you're not interested in a widget company, so you get your money back from Joe maybe.

You don't have to, you can keep it in, keep your freebies, or you can get your money back and keep your warrants. If enough investors redeem, there's often a secondary offering, which of course is delivered to certain people. This thing still on here, here we go. And if we get through all of that, the two entities merge. So Joe's publicly traded shell, which was just a shell company with cash mergers with Acme. And now Acme Widgets is a publicly traded company.

Here's the key, Joe keeps about 20 percent of the company for himself. That's his fee for all of that work of raising the money and setting up the public shell and all that. One thing you might have noticed is that SPACs tend to struggle out of the gate. I'm not gonna dwell on this slide too much, there's lots of statistics out there about this.

The average SPAC return is down about 35 percent or 30 percent in 12 months. That's an average, some of them go way up. Obviously DraftKings is a SPAC that worked out very well, Virgin Galactic, there's ones that work, but an average, you can find all kinds of studies kind of supporting that they come out of the gate with a lot of headwinds on it. And I wanna talk some today about why that happens. It's an important part of this idea.

I'm gonna skip kinda to the third bullet here. SPACs are kind of structurally set up to dilute early investors, and there's pressure on the stock because of that. Harvard did that study, I just had the slide up there on that. They estimated that out of the gate, the dilution costs shareholders about three dollars per share. And I think that's a little harsh, but somewhere between seven and eight dollars.

So when the SPAC comes out, it's a ten dollar stock. I didn't mention that most SPACs go public at ten dollars, you guys all know what that means. It doesn't mean all SPACs are created equal, it means that a hundred million dollar company, a billion dollar company, ten billion, they can all be worth ten dollars a share, just a matter of how many shares outstanding.

So they come out the gate worth ten dollars, all things being equal. There's generally headwinds that cost the company about two or three bucks. So seven or eight dollar share price, kind of right out the gate.

One of the reasons that happens is sometimes these are just lousy companies. Well, I should say sometimes they don't stop falling at seven or eight dollars, they keep going. And sometimes they're lousy companies and when you think about Joe, our sponsor, you might realize why that would be, Joe has two years to find a deal before he has to return the money.

So he's motivated to buy a company, and at some point he's gonna get desperate. He might just buy any company. He'd rather own 20 percent of a lousy company than get nothing for all of his efforts. Similarly, it's a very competitive world. So Joe is gonna go to Acme and be like, "I think your company's worth 500 million," and Acme might say, "I think we're worth a billion and I've got a bunch of other SPACs that agree with me."

So Joe is gonna be like, "Okay, I'll do the deal at a billion." Because again, he'd rather own 20 percent of a slightly overvalued company than own nothing. So I think there's a lot of these pressures that kind of weigh down on their shares. Also there's a lot of expectations that maybe Joe and the Acme CEO or the Acme founder kind of told the market.

And as soon as they don't meet those projections, the market's just like, "Oh, same old story with SPACs. It's hard to shake that reputation." There's a lot of these tailwinds weighing down on these companies. So we're weaving together a lot of threads here in this presentation. And it's time for me to talk about what might be the worst recommendation in Venture Value history, at least from a profit and loss standpoint.

It was a SPAC that I wrote about in 2017. And I didn't fully understand all these nuances here. I knew what a SPAC was, I knew about their nasty reputations, but this was a good company and I was excited about this company, it's a company called Daseke. Some of you are going into convulsions just thinking about this company.

Open-deck trucking, these are trucks that carry things like equipment, machinery, those big pipes that you put when you're building in a new neighborhood, you guys see these everywhere you go. It's a very fragmented industry, a very successful CEO called Don Daseke and entrepreneur. He had the idea to roll up all these mom and pop industries or mom and pop companies, which I think it's a great way to make money as long as you've got good funding. The problems with Daseke share price started from the beginning.

For one thing, they didn't meet the expectation. So right out of the gate, some of these pressures took the stock from 10, 11, 12 dollars where I recommended down to seven or eight bucks right out the gate.

So I sent the subscribers a note, just kind of holding hand, listen, the thesis is still intact and this, that, and the other. And you guys, maybe some of you got those reassuring notes, but it just kept getting worse. We had a short seller come out, I didn't necessarily agree with all of his assertions, but short sellers can smear companies, whether the assertions are good or not, that caused some problems.

And they only had, the final straw was about two years in and the board and the, I think this was the final straw, the board and the CEO just parted ways. They got rid of their CEO and the market was just sick and tired of it.

This is this year. This is the price, this is a commercial. Keith wanted me to plug trade stops, I just saw him backstage. This is a commercial. We don't always use trade stops, we don't use trade stops in Venture Value all the time. We use other kind of quantitative metrics. We sometimes use trade stops or trailing stops. Sure, would have saved us a lot of money here.

At this point, Tobias was just talking about this. The quadrant of hated, but value, I can't remember all the terms he used, but this was a company that was still generating positive cashflow. I think in Tobias's slide, it was something like six and a half times earnings was this valuable quadrant. At this point in time, when I had to sell, it was trading for 0.7 times earnings and it was generating cashflow.

I knew the stock was gonna go up, but it didn't matter. Even if it tripled, we'd still be down 50 percent. If you ever feel like this, I felt like – if you've ever felt like this, you know what I'm talking about, I was just ready to throw in the towel, I was begging to get out of here.

Most of you were out. I know that from looking at the volumes when I put in my sell notice as my sell advice, but we did put in kind of a back handed recommendation as we sold.

So I said and Tobias would approve this, for new readers or others who never bought shares in the first place, you won't often find business that generates tens of millions of dollars of free cashflow trading for 0.7 times earnings. Buying cashflow positive business at a period of maximum pessimism is generally a great way to make an outstanding investment return.

So I was throwing in the towel, but I kinda knew what was gonna happen here. It was gonna go back up, it wasn't gonna go back to 20 or 30 like I initially hoped, but it was gonna go back from ten dollars and you can see what's going to happen next. Just last month, it finally crossed ten dollars for the first time since coming public as a SPAC. But I really regretted that I was selling when I should have been buying.

This was a company that I knew was going to fight back for all the reasons Tobias just kinda said. Pretty good company, this isn't Amazon, this isn't Microsoft, but pretty good company, cashflow positive, they weren't gonna run out of money. Now, one of the things, and maybe it's a personality flaw, I don't know, but I am obsessed when I screw up.

I hate losing, I really hate losing. When I know that you guys lost money, I became obsessed with the Daseke situation. I began wondering, I wonder how many other companies are out there just like this. Good SPACs, but got caught up with the SPAC stanch or a lot of these SPACs are just not ready to be public companies. It's hard to be a public company, you've got earnings calls, you've got to set expectations, you've got a whole new accounting department to get the SEC filings out.

So I wondered how many of those there were, and we went through and we found there's a class of 27 teen SPAC picks. This was from November of 2019. I wanna be very clear because again, I know this is a trick, you sometimes see at these conferences, we'll do a bunch of back testing and say, these are the stocks we could have found if we were using this.

In an actual meeting in November 21st of 2019 with Matt Weinschenk and Jeff Havenstein from the Advanced Options team, and of course, Jake Abrams from the Venture Value team, we identified these Jake and I as companies kind of like Daseke. There were SPACs that were beaten down to two, three, four bucks, but some of them were making cashflow, they were pretty good companies.

And I talked to Matt and I talked to Jeff and we were trying to think if there's an options idea here or an options product, we're going to use the warrants, which had turned out weren't liquid enough. And we're going to maybe see if we called our brokers, if we could kind of get them to make a market in call options. Anyway, the idea for the product fell apart for a while. We've kept up with this class of 2017 SPAC picks and I wanted to show you where we ended up here.

Now, again, these aren't magnificent, 292 percent gain, 334, 388 TH, which is Target Hospitality is one that didn't work out, if you had bought a basket of these stocks you would have done really well. Now, I wanna point out that these things are just now creeping back to ten bucks. This is not hyperbolic Wall Street bets, kind of to the moon stuff.

These things were at ten dollars, they ended up going to three dollars, and then they just kind of fought their way back over the next couple of years. It didn't go straight up by the way, we had a pandemic in there. Most of these things bottomed after 2019, you guys know I did a presentation on this in 2017 I think, about these kind of whenever I find a chart, I love these bowl kind of things. I look for these charts where a stock that goes from ten dollars to three dollars. I already know that the market is willing to pay ten dollars a share for this company because it used to.

And you can say, well, maybe it was overvalued at ten dollars. Okay, fine. Maybe it only goes back to eight, maybe it goes back to seven. I just need management to do whatever they were doing back when it was a ten dollar stock. And so what we had with Daseke is it kind of created this bowl. IEA is another one that's an energy company, and that was part of the SPAC group.

This is like alternative, I think wind energy. This one actually was not part of the class of 2017, but it is a SPAC that kind of ended up on the scrap heap. The big winner was Lazydays, which I know what they do, they sell RVs. And that's what they do is an RV dealerships. You know what I mean? It's like these guys didn't invent an electric vehicle RV or a flying car or something, they just got back to where we thought they were gonna be when they came public.

So this one fought all the way back and kept going. \_\_\_\_\_ is a software company. Target hadn't worked out quite yet, Target Hospitality, these guys do temporary housing in like oil fields for oil men. I guess it's been a bad time to be in that business, but maybe it's kind of a backhanded way to do oil.

So as we were looking at this with Jake and with Matt and Jeff, I really liked this idea, but I had a problem. This was back again in 2019, this is a quote, I'm paraphrasing I don't remember exactly what I said, but it's a pretty cool idea, I just wish there were more SPACs. There was only like 30 SPACs at that time. I didn't have any bricks and mortar to make this into a real idea and a real product. And of course I already told you what happened.

And so I got really excited in 2020, in 2021 I started passing this round. I'm like you remember that list of companies back from 2017, back when I was pouting about what happened with Daseke, back when I was obsessed with what went wrong with that? Well, look at this pipeline of companies coming through.

Now, once you go public as a SPAC, you'll spend a couple of years raising the money and going public and having the merger. And then it takes a couple maybe months or quarters to fall. There's a pipeline involved, and Jake and I have been tracking it since March. I don't want to really go through this whole thing, but you can see since late March until this is not even the latest one, this is until early October.

Look at that left-hand column. These are the companies that have either IPO or raising money or looking for a target. So there were 684 back in March, now there's already 100 more than that in the pipeline. Not all of those are going to find targets, that's fine. Let's just assume only half of those find targets.

There's always between 100 and 140 that have found a target and it's just a matter of crossing the goal line and going public. And at any given time, you can see there's obviously a population that the merger has been completed in the last 12 months. And look at what's happened in that column, it's gone from 78 back when we first started tracking this, I've already got twice as many of those companies to look at. The most exciting part of this is the SPAC scrap heap, that final column.

So back in March, back when everyone was still writing headlines about how awesome SPACs were, what is that? Five or six percent of the IPOs were thrown the scrap heap. But as you know, now that I already showed you those other headlines, now nobody really likes SPACs.

And look at what happened now, we got like 17 or 20 percent or something of all the SPACs that have come public in the last 12 months, 31 of them about, I don't know what that is 17, 18 percent are already in the scrap heap. Now you're not gonna buy them all, some of them belong in the scrap heap. Remember some of these are lousy companies, were really overvalued in the first place, but this is what I need as an editor, I need to find ideas. And the last time I did this with a much smaller population, what was the return? 207 percent.

So if you like this idea, I think you should read Venture Value for the next couple of years or at least 2022. I know I'm gonna be writing a lot about this, it's gonna be a source of a lot of ideas. If you're not already reading Venture Value and you like this idea, you should check out the work that Jake and I are doing over at Venture Value.

Now, you remember there's a secret here that only you guys get, only the people who stayed for the very last presentation get this. So remember the title of this was about leverage, a leveraged way to play this. And that's because remember those warrants, those freebies that we talked about, well, those are publicly traded too, sometimes people are selling their lottery tickets.

And so AirCell, I talked about this up here earlier on the panel, there were shares and there were warrants. The valuation is much different now than when I made this table. I think we recommended it at 14 and I sent it to Matt at 17, and this chart is from 17.

So the estimated warrant return is an estimate. I don't know exactly what it will be, it depends on how long it takes for the stock to move and a bunch of other variables. But you still get the idea here of what happens. This is when AirCell was trading for about 17 bucks. Again, I think it's over 20 today, but you get the idea. So AirCell goes up 32 percent, the warrant's probably gonna be up 70 or 80 percent. Let's just use a range. If AirCell doubles to 36 bucks, 98 percent gain, your warrant's gonna be somewhere in the 200 to 250 percent range.

Now, the warrants are extremely illiquid. Someone just asked me at the last break, they're like, "Why don't you guys write about, why ain't there a warrant product? And these warrants are the ones that I can get most excited about." They're not all that liquid. Some of them only sell like $10,000 worth a day, you gotta be really careful.

So I'll never be able to write about them or recommend them unless it's an unusually liquid warrant. So this is a secret for you guys, when you see me writing about a company that I like a SPAC, SPLAT or whatever, something in the SPAC scrap heap, just make a note to do a little extra work and see if there's warrants out there for it. Because if you get that, if you're bullish on the stock, there's a little more leverage \_\_\_\_\_.

And then of course it goes the opposite direction. If the stock's down in my chart 17 percent, the warrant will be down 40 or 50 percent. So just something to keep an eye out for, please I implore you, don't be stupid about this.

So these are really illiquid, you're going to have to do a little extra work check for the liquidity. You might want to check and make sure what the warrant terms are. Some of them are one warrant per one share, sometimes it's half a share for a warrant, but do a little homework. And maybe try and buy one warrant, if you don't know how to check liquidity, try and buy one warrant. If it fills immediately, you can try and buy five. If that fills, you can go up to 50. But you're not going to be able to buy like $10,000 worth at once.

So you just be smart, maybe mix it up 90 percent of the stock, ten percent of the warrant for a little bit of juice. And that's for you guys only, I'm not gonna be able to write about that. So along those lines, the last recommendation from last week, I can't remember how to buy \_\_\_\_\_, but a lot of these things have hair on them, they're not super. If they were obvious the market wouldn't hate them.

So I just recommended one of these SPAC scrap heap situations just last week. And if you were following along, this is really embarrassing so much, so it was kinda funny. We published at 11:00 AM and at 4:00 PM at market close, this company says, "Oh, we're gonna adjust our earnings projections." So I had to send out an alert on that.

But again, this is one of those things that happens. You're gonna hold these things for two or three years. The stock's already down 14 percent, but the latest, it has warrants trading between 40 and 50 cents right now.

And so if you're willing to be careful, I'll give you the name of the company you can go out and figure out the warrant. But this is a really good company that's historically been cashflow positive, they had to get rid of their CEO, they're looking for a CEO.

I think the reason they're taking a bath with their guidance so that the new CEO starts from a reasonable floor, but the name of the company is ATI Physical Therapy. The warrants are pretty lightly traded $10,000.00 to $300,000.00 per day. Patient speculators, if you guys all put in an order now, the market's closed, so we're gonna blow up the market in the morning.

So let's be smart about this and do maybe what I was talking about, try and trade a handful and see what happens. But I'm gonna be talking about a lot more of these over the next year. If this idea is compelling, this is the kind of thing Tobias was talking about. Somebody asked, where do you find these? This is one of the ways – somebody asked Tobias where he found those kind of ideas.

And this is the kind of thing that I think is a good source of ideas. So I hate losing, I fixate on my mistakes, but every time we make a mistake, I get a little bit smarter and my product gets a little bit better. And I want you to know that the Daseke disaster is gonna be the source of some of the best ideas I think that we have at Venture Value.

So if you like this idea, make sure you're reading Venture Value. I think you guys all have access to it, I'm not trying to sell you anything. But that's the presentation. I'm pretty excited about where we're headed here in 2022. So again, thanks for your time and thank you so much for sticking out until the very last presentation.

Before we go, I don't have time for questions, I'm sorry. There's an event out by the pool for a lot of you. I just want to say thanks to all of you, I'm serious this is not cheesy. On behalf of everyone here at Stansberry, you guys are our partners. Porter has always called you our partners. Thank you so much for all you do for putting your trust in us.

I have my dream job, I love this job. Doc just listed all of my old accounting jobs that kind of cringed. I love what I do and I appreciate your partnership. And hey, while we're in the mood for gratitude, if you'll help me, I can't clap because I have a microphone, but there's three people backstage that you can't see. They've been working hard all year to put this event together.

So, Mary and Tara and Jameson, if you'll help me thank them for all their hard work, they did awesome. If you liked your food, say thanks to them. Hey, I got some good news for two of you, there's some raffle winners, I guess there was a raffle out there. So David Cooper from Dripping Springs, Texas, come on down. Actually, don't come on down, go to the international coin Alliance booth in the exhibit hall. Mark Fowler from Hattieville, Arkansas, how do you spell? I don't know, but congratulations guys.

And just a reminder, there's a closing reception at the Encore Beach club at 6:30, but this is for the three-day ticket holders only. If you're Alliance day member with a one day ticket, stop by the sales booth you can buy a ticket. Bring your little lanyard thing, so you'll get let in.

I think the World Series game might be on, but it says here on the teleprompter that the Astros fans aren't allowed in there. I just read what they put in front of me, but I'm gonna go get changed out of this. I'm gonna head down to the pool. I hope to meet a lot more of you there.

I've met a lot of you this week. It's been a great event and I appreciate seeing all of you. Hey, let's do this again in Boston next year. Okay? Buy the tickets out there, and I'll see you at the pool. Thank you.

*[End of Audio]*