# Examples of Hard Asset Investing Through REITs and LPs with Eric Schleien

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[DAVE] Alright, folks, welcome to Investing for Beginners Podcast. Today we have our good friend Eric Schleien back with us; today, he's back to talk to us about all kinds of stuff. Eric, for those of you not familiar with him, is the CEO and owner of Granite State Capital Management LOC. He's also the owner of a great podcast as well called the Intelligent Investor. So Eric, thank you for coming back to see us again. And I'm gonna turn it over to you and Andrew, and we can go ahead and have our conversation.

[ERIC] Alright, thanks for having me on.

[ANDREW] Yeah. Thanks for joining us, Eric. So you and I had the pleasure to speak in a roundtable the other day with POD bean. And so that was a fun live stream that we did. And you had some interesting stock picks that you had recently in the real estate. And so it's there, there's a thing called an in the stands for a real estate investment trusts. And it's a way for investors to get exposure to real estate without having to go out and buy the real estate themselves. So I was hoping maybe you could talk about a couple of REITs that you bought recently. And then maybe we can talk about how investors who are just starting out can think about REITs? And what kinds of things they should look for.

[ERIC] Yeah, sure. So, you know, I think to back, you know, it's, it's really having exposure to real estate, and you know, it means value investor, I don't really care if I'm buying real estate, or say, buying a gold mine in Mongolia right now. I'm just looking for value. However, I think there is a lot of opportunities. And there, there certainly has been a lot of opportunity in real estate over the past few years. So REITs are, you know, certainly one way to go about investing in real estate; there is just also publicly traded, you know, the real estate available, you know, not every real estate play is structured as a REIT. Right? So there is a specific legal structure where they have to, you know, certain tax advantages to reach and they have, they have to distribute a certain percentage of income as a dividend. So there, there are, there are certain legalities and tax consequences for that. But so, so I would say that if you want, and I'm gonna, as someone who's not a tax professional, but if you want exposure to real estate, I wouldn't worry, you know, I wouldn't have just bought a REIT for the sake of buying a REIT, as you know, sure, you might get certain tax benefits from a read, but then, you know, that might be made up for in the price, right? So markets tend to be pretty efficient.

And if there are tax benefits, or some kind of security, that often will also show up in the price of the security as well.

[ANDREW] Basically, it's not a panacea; you got to look at it just like you would any other investment. Exactly a good deal, and it depends on which one you're looking at.

[ERIC] Yeah, I mean, for instance, one of the real estate holdings that I own, LAACO stands for the Los Los Angeles Athletic Club; you know that that is not a REIT, that's actually a, you know, a publicly traded, limited partnership. And you know that you have to fill out the k one every year, and it cannot be in a retirement account. Otherwise, it would penalize for business income, so that, you know, that would be an example of something, not a REIT. And I'm also, you know, if you look at some of the, say, Brookfield asset management, I mean, they own, you know, some of their publicly traded LPs, but you know, that's not a REIT, either.

[ANDREW] Post about those real quick because I think that could be interesting, too. Because not only are they an option in real estate, but you can also buy them with like pipelines and things of that nature. So can you explain that? Like simply and, you know, do you buy it just like you were the stock? How does that work?

[ERIC] For Lego or Brookfield, or for both?

[ANDREW] Just like limited partnerships in general?

[ERIC] Oh, sure. So for limited partnerships that are the ones that are publicly traded, there are private ones, too, right, which you know, are not like they're part of the stock. There are also private REITs too. So it can get very complicated, but for the first simplicity, there are publicly traded limited partnerships. So there are some of the Brookfield publicly traded limited partnerships. So they have like Brookfield renewables, Brookfield Infrastructure Partners are what it's called. So that's what that's the asset that will hold the pipelines, but they also have toll roads and then all kinds of other stuff in there. And yeah, they have a ticker symbol. So Brookfield infrastructure partners, the ticker, I think it's just VIP. And then Brookfield renewables, I think is BAP BP, there's also they have a Brookfield business partner, so they have a few of these public limited partnerships. They had Brookfield Property Partners to which was BPY. But they just took that private not too long ago at a discount to the net asset value.

[ANDREW] So what would be the biggest difference between a stock? Which is ownership in the company versus buying one of these? Like, is it just one of those things? We don't really need to necessarily care so much as an average investor? Why do they structure it this way?

[ERIC] Yeah.

[ANDREW] As, as much as it is, just be aware that these are special structures and that you can buy him like a stock.

[ERIC] Yeah, I think, in a nutshell, you buy him like a stock. And essentially, instead of owning a percentage of a business operation, you own a percentage of a, usually a collection of real estate or other kinds of, you know, hard assets.

[ANDREW] Gotcha. No, that's a great explanation. So what was it about? You said, like, LAACO, LAACO? Yeah, you liked and what made it a good investment for you?

[ERIC] So you know, what had me invest in LAACO so a little background LAACO stands for the Los Los Angeles Athletic Club Corporation, actual, you know, the business, the business itself, has been around in some capacity since the 1880s. They've gone through a few different corporate structures. And they started literally, as in the Los Angeles Athletic Club. So for those who live in Los Angeles, in California, it is a staple of Downtown LA, whether you're a member, not a member of people know what, what Los Angeles Athletic Club is. And it's, I'd say, you know, for people who know what, like, New York Sports Club is, or Chicago, Chicago has their own Athletic Club. It's not just like, you go to a, you know, a sport like a typical Sports Club, right? Like Lifetime Fitness, or you know, something like that a little, it's almost like Lifetime Fitness meets a country club. And you know, you have social events, restaurants, you do, and the athletic club will have a, you know, typically a pretty nice. So the Los Angeles Athletic Club is a staple of Downtown LA, whether you're a member or not. And it's sort of a; you could think of the athletic clubs as kind of like a combination of like a high-end fitness, you know, gym membership mixed with a country club. So and you know, some clubs are focused more on golf. Right, this is a club focused more on fitness. So there are basketball courts, in the pool, and spas, and all kinds of stuff. There are also restaurants, and there's also it's very social, and people get together for business meetings there, you know, so, and it's like, I don't know how many floors it is, it's, it's a lot of stories, it's very big, tall building, there's a parking lot as well, adjacent to the building. So the club business itself is not actually that great; it's pretty mediocre. And for many, many years, you know, especially in Los Angeles, the club was hurting for many, many, many years, with a hurting, it just really wasn't growing. There has been a comeback in; you could say, the club industry, if you will. And it's people of my generation, actually.

So generally, people who are in there, say, the early 30s to early 40s. And, you know, they're maybe starting to make somewhat of a decent income to be wealthy, but, you know, you're making more than, you know, more than a low-end teacher salary. And it's, a lot of these places are renovating and kind of like a cool hip place to go versus more of a stodginess, sort of like the old school clubs, that, you know, maybe my grandparents, and great grandparents that generation would have gone to. So downtown LA as if it was worse because, you know, Lawson downtown Los Angeles has really not been so nice for a long time.

And then, you know, they've had a comeback in the last 10 20 years or so. So the economics of the club industry has gotten better. And then there's sort of been this extra-economic tailwind from the growth of Downtown LA. But the reason I invested in it was not for the club that was sort of like a free thing added in the real reason is a few decades ago, they started investing in self-storage units under the brand name storage West, and that's where most of the value LAACO is now. And it was a very smart thing to do to take your cash flows and put it into self-storage, and especially with interest rates of income, you know, this bull market and you know, and consistent lowering of interest rates. Cap rates have declined significantly for all real estate.

[ANDREW] Yeah, what's a cap rate what would be like a parallel to something that you'd see in the stock market?

[ERIC] It's it's like the P E ratio for real estate. You could say, right? So something's trading in a ten cap, right? It doesn't make very, very simple. You have a million-dollar property and say the net operating income is $100,000. A year 100,000 divided by a million, it'd be 10%. So it'd be like a company trading at ten times earnings.

[ANDREW] Thanks. Yeah.

[ERIC] So when it comes to LAACO, right, you have this incredible portfolio of self-storage units. And you can just have, you've got a pretty accurate idea of what the, what the entire company was worth, in some ways, real estate's a little bit easier to figure out than businesses because especially with self-storage is gonna

be a lot more predictable year to year. So what I did is, I looked at recent, you can just look at private market values of self-storage units, and you can look at public market values of publicly traded self-storage companies. And, like, if you, if you took away the Athletic Club and just looked at the self-storage units, self-storage, business or storage West, the valuations were significantly lower, then, you know, all the public peers have just self-storage companies, any of the private market valuations, was trading probably around 50 cents on the dollar of what they could get in a private transaction. And on top of that, you know, it was, you know, the way that I was able to sort of net out the Athletic Club is I could, you could actually look at, you know, real estate transactions in the area for downtown LA.

So, basically, for, if you took a sort of an appropriate cap rate back then, so I started buying in 2017, I was buying all the way up until 2020. Actually, if you looked at appropriate cap rates, Private Market Value, the Athletic Club would have been trading at a price per square foot at lower prices than an abandoned building that had just been sold. Next door. So there was so you could actually say that the athletic the if you figured out sort of an idea with the Athletic Club was worth the time, the Self Storage business was trading at about a nine and a half to 10% cap rate, where any of their peers were trading, say, on low end 3% on the high end, like 6%, and a SIX and a six cap for self-storage, was just not going to be as high quality anyway, as what storage was had. So anyway, you sliced it; this thing was really cheap.

Now, the question that I always asked myself when something is literally this obvious because this was one, this was one of these things that just was screaming out at me, like I didn't need a spreadsheet to figure this out. And it always makes me a little nervous. Because if this is so obviously cheap, what do I see that other people don't see? Right? I don't have, you know, telling other people who don't have this information. So, I went to a few people, and I said, you know, is there anything wrong with my thesis? No, nothing wrong. And but then I realized really quickly why this was probably, you know, miss value mispriced. It's had a ton of things going against it structurally, not value-wise, but just structurally, so what do I mean by that? Well, number one, it's a publicly-traded limited partnership. That means most pretty much any mutual fund is not allowed to own it. A lot of hedge funds want on it. And a lot of small-time, just you know, the average Joe investor is not going to buy it either.

[ANDREW] So it's a pain in the butt.

[ERIC] But it works a real pain in the butt accountants hate K ones. So that's one strike against it. The other strike against that is there's very little liquidity. I mean, if I look even right now today, and I say okay, how much what's the volume on Laker today? Let's see. So so far today? Oh, today was a huge, huge volume day for LAACO; actually, 158 units were traded.

[ANDREW] One five, yeah. 158,000

[ERIC] No, no,no 158. Now that's based on a unit price of $4,200 a unit, so you know, it is still a higher dollar amount, but there are many days where it's like one or two trade, and there are many days where zero trade. So if you are someone with a theme and a hedge fund, but you're running a very large fund. That's too small; you're never gonna be able to buy enough units to even buy like a 5% position. It's not a, I mean, it's a small company, but it's not super, super tiny. You know, the market cap is probably about a five 500 million or so knows, you know, less than that, obviously, when I bought it, see what the market cap is today? It's uh, yeah, the market cap today. Oh, the markups 700 million today. So when I bought it was around 400 million, the market cap. So it's small, small. I mean, it's not Amazon or Google. But you know, it's not 5 million or 10 million, which I look at too. But the float, you know, the percentage of shares that are actually trading is very low. So the family that has been involved in LAACO's, the Hathaway family, has nothing to do with

Berkshire Hathaway, just in case you're wondering. But there, they're a very famous family in LA. And you know, they were the ones involved in the 1880s; they still controlled the majority of the units.

And I think they, like about 70% of the units, are controlled by the Hathaway family. And so we're not very liquid, that so it's not very appealing to people for that reasons that we've got more people. And then, on top of that, you know, there's no room for an activist to get involved because you're never built to have a majority stake. And then the other thing that's negative too is that they're not very levered. So for a self-storage company to not have a lot of debt actually is not a good thing. Long-term, if they're, they're managed. Well, it's, you know, but you don't want the leverage. What's that?

[ANDREW] Wall Street loves their leverage?

[ERIC] Yeah, so you know, buying having fairly unlevered real estate is it's a good way, it's a good way to stay rich, but it's not really a good way to get rich. So the Hathaway family is almost conservative to a fault. The manner and just to give you an idea of how conservative they are in the company that manages Laker, which is also owned by the Hathaway family, they take a 1% management fee, which is very reasonable. It's a management LLC to manage the Self Storage portfolio is called stability LLC. And so, so you could say the downside is the conservatoire fault, they really look at this as like bond-like security. Think there when I talk to management, I think they said their hurdle rate was like they want to make like an 8% annualized return on any capital they invest. They also have a policy where they return 50% of the income back to you and the holder, so you get it you get paid while you wait. And then that other 50% is reinvested into the company. And then typically, any money left over from that, they will always do a special dividend at the end of the year, as well. It's not a lot, usually, but they've had surprises.

So back a few decades ago, there were a few years where there had a dividend of over 100%, there were like two years where they had 100% plus dividend because they had sold some assets to some like Japanese investors back in like the 80s or something like that. But they're really interesting history. Ben Stein wrote an article about them many years ago saying it was his second-best investment other than Berkshire Hathaway; you probably find that online somewhere and put a link on the show notes if you want to kind of fun, yeah. And like Oh, shows up in the old Walker's manuals, you can find them. So you know, here's a situation very, very, very low risk. Really, I mean, I couldn't figure out any way to lose money on this thing. You know, they owned all the land. I mean, even if you had like a major earthquake in California, which is where about half of their self-storage properties are based, like, you know, the values not in the properties themselves, the values in the land, you know, in the dirt, so they could rebuild on there. Um, and then you had all these free call options, right?

So it's like, well, if they read it, if they add to some of these self-storage properties, they could, they could build more stories on, they could probably do something with the adjacent lot next to the Athletic Club and maybe built, you know, there was some talk that as La as population growth goes into downtown LA, they might build some condos, like so there's, there are all these ways to win, you know, they could just sell the Self Storage business at some point, which would be another way to win and looks like they might now there's been some recent news on that, but you know, I came up with a valuation back then around, you know, four to $5,000 a unit and this, you know, this was trading around 2000. And then, and that was without any growth, I mean, obviously, rents have gone up since then, and there's more value now. But you know, it's really rare to find a piece of very stable property hot, very high, high-class real estate, trading it pretty much 50 cents on the dollar. Are you gonna get paid while you wait? So that was the thesis on LAACO. But clearly, it was, you know, there was reason structurally while it was cheap.

[DAVE] So how in the world do you find things like that?

[ERIC] Yeah, so I found this one. Actually, a colleague of mine told me, so I was at the Daily Journal meeting that year, up to see Charlie Munger in LA. And for those that don't know what that is, it's So Charlie, who's the vice-chairman of Berkshire Hathaway, he is the chairman of another company called Daily Journal where he doesn't take a salary. They do. They have like a, like a legal business, and then the SAS business now that they're developing, I can get into it, but it's people don't go cuz their shareholders they go to see Charlie. And so I was staying with some friends of mine out there. And one of the guys who were the stockholder's guy, Alex Bossert, who I, I've known him since he was like a little kid, like, he was like, 13, at the first Berkshire Hathaway meeting, and I was like, 17, or 18, or something like that. So he's been around those circles and really smart guy. And he runs Bossert things called Bossart capital, or something like that. So shout out to him. You know, he's the real deal. You know, if any, you want to throw him, you know, some money and his fund, you know, he deserves it. Yeah, he was a shareholder. And like, Are you a unitholder, legally, a unitholder in LAACO. That's another thing.

So for those listening, I keep saying units not share. So limited partnerships don't technically legally have shares outstanding; they have units outstanding. And limited partnerships don't pay dividends; they pay distributions. So it's, it's the same thing. It's just different legal terminology. So he was, you know, it was a lienholder of like, he told me about the company. And then, I did some research on my own. And that's how I came across it. So the way that I find out is a mixture; I don't usually actually find its ideas from talking to people I have before, but it's, I guess, a combination of surrounding myself with other value investors.

And then I just read a lot and come across random stuff. And it's hard to explain, but it's like, you know, you read articles, and that leads you down to reading about other companies. And then, at some point, something kind of hits you. That's, that's generally my what I do, I don't do I don't really do any screening anymore. And actually, at this point, I don't do any screening anymore. Because the screeners to me, you know, the sort of the traditional value screens that you would look at, you know, like, oh, a company growing it, you know, X percent a year with 20% ROI, or higher, and then good profits and trading at 12 p or lower, so Well, nothing would come up. So often, the things that are not coming up on the value screens, like there's, they're not even cheap, but like, there's clearly a reason, like a real a really good reason why they're trading at those valuations. A lot of them are like very cyclical companies where it's not really a real PE, and a lot of that has got arbitrage away because everyone has access to the same information. So I think you need to be a little bit more creative to find value these days.

[DAVE] Yeah, I would; I would totally agree with that. I know that when I, I've run screens through finviz. Lately, it comes up with the same 1215 companies just you know, every month it's you know, it's the same cast of characters. And it's nothing you want to cast it, you know, a line in to try to look at.

[ERIC] Yeah, yeah, exactly.

[ANDREW] The thing I liked about the story you told about your successful investment was, you really honed in not so much on like, Ooh, this is how good this company looks. This is how good the numbers look. But it's like, alright, what did I miss? You know, why does it look so good? Yeah. And then once you identify why Wall Street's generally staying away from it, then you can notice for yourself, whether it's actually a good deal hate hiding out in plain sight, or it's maybe a value trap, where a lot of companies I look cheap, might be cheap because the business kind of sucks, right?

[ERIC] Yeah, I I'd say that for, you know, individual investors. You know, Buffett has always said this, but it's really true. You know, if you're a smaller individual investor, you really shouldn't be looking more at areas where there's, you know, structural advantages to you, such as low liquidity smaller companies, because you have less competition, so there's a higher likelihood there's going to be miss pricings in the securities probably was also higher, but there's also a higher likelihood, just like you might find some

undervalued stuff, you're also gonna find a lot of really overvalued securities. You know, there's on the OTC Markets, I don't think it exists anymore; they merge into something else. But for a while, there was a company that's made a business that was finding Bigfoot, you know, probably overvalued.

[DAVE] Probably

[ERIC] Probably happy to debate someone if they'd like to come on and tell me that it's the son. It was cheap back then.

[ANDREW] I could go down the same rabbit hole for Yeah, right researching now. Yeah.

[ERIC] But yeah, I, you know, there's a lot of interesting over the counter securities, and just tiny, you know, smaller NASDAQ companies that, you know, there's nothing wrong with that there actually, in some ways are easier to analyze, because there's, you know, less moving parts like it's much easier to analyze LAACO than it is to analyze General Electric.

Yeah.

[DAVE] Yeah, that's the truth.

[ANDREW] So I guess if somebody is tuning in, and they found the idea of investing in hard assets, interesting to them, you know, whether through, or limited partnership, or some other way, can you give like a broad overview of you mentioned? So self-storage units, you mentioned real estate, what are some other examples of things that people can look into, and maybe like, a beginners tip or two around those?

[ERIC] Yeah, so I guess there are two ways you can look at it either pay a fair value for a company that's really, really well managed, or find something where, you know, it's just trading at a real significant discount to the assets. And it seems like there could be some kind of catalyst. The reason I say that you want to feel like there could be something I will, I would never touch a REIT, that was clearly being horribly mismanaged where the management and a lot of stock, they were taking egregious management fees. And it literally looked like nothing would change, you know, the, see, one of the things with REITs, in general, or any kind of real estate company, is for them to expand.

Having their stock trade below net asset value is really bad. Because if they're going to sell a stock, right, if they need to raise more capital to buy a new asset, yeah, they're kind of, they're really screwed, if, if they're not going to get a fair price for the nav. So I mean, a lot of the model for some of these REITs is like, they'll still sell a stock, you know, so they'll, they'll buy an asset at like, you know, a seven cap, but they'll, but they'll sell stock at a five cap and make the spread, right? That's a very common model. So there's, there are so many ways to look at it. But you would, I would say, it's very easy, it's very easy to find value traps in real estate, for you know, for the reason I just said, right, you could see just the current management team, that's really just, you know, build, build at any price and just want to make, you know, make that make the management fee, and, and not really care about prison shareholder value.

So you see some of these rates trading at 50 cents of nav, but the stock price is flat for like, you know, 30 years, they don't really want that. And there are other real estate companies too. Like, for example, T-Han Ranch, California. It's, you know, there's a, there were two professors out in California that tried to go activist on the company, and they failed, and it was it. There's a whole article that they wrote about how hard it was, and, you know, but there you have a very cozy management team, they do the annual meeting, I think, in the country club every year, and apparently really good food, but, you know, they have all this undeveloped land; clearly, it would be worth more if it was, you know, if the thick of gold at permitting Don

and all that, like, it would be certainly worth more than the market cap. But, you know, they get paid egregious salaries that pretty much do nothing.

And you know, that could be dead money for another 20 or 30 years, you know, so, some point will that land be developed? Yeah, sure. Absolutely. And there's some of it developed, but like most of it's not, but you could wait decades, like, you know, your grandkids might benefit from it or something like that. So I'm stressing this because I think it's really important. First, look at like, what do you want to avoid with real estate, so look, you know, avoiding things that could be dead money for decades. There's another company JG Boswell is a great book about the Boswell family they own, like the largest like cotton, the largest cotton growers in the United States.

Also, large has growers of like tomatoes and a few other things. But again, you know, the real estate's probably worth a lot more than the market price. There could be some catalysts where they're selling off some of the lands, and the whole idea was to some water rights, but they always say at the annual meeting, those water rights really aren't worth anything and people don't know, or they're trying to keep the stock down for tax purposes. The family owns a vast majority. So again, one of these companies, again, that's been flat forever, not saying there couldn't be value there. But to me, there's easier stuff to buy. So, for example, about LAACO because they're clearly the management was ethical that you know they're charging 1% Less fee, they have to have a history of selling assets, if they thought they were expensive, they are very aligned with shareholders and the fact that they own a majority of the stock not getting agreed to salaries, and most of the family, the Hathaway family, that's not management, they pay their bills with the distribution. So they have every incentive to make good investments and keep that distribution going.

So I like being, you know, partnered with that family. And then, of course, you're buying the real estate and 50 cents on the dollar at the time. And now there is a catalyst where there have been some news reports that that storage West might be getting sold, which if it does, I mean, that would, you know, that would be one of those years, where it's possible to get 100% dividend. Even at the current price, I mean, the stocks up a lot in the last month after that news report. But you know, there's, there's, there's, there's a, you know, just figure out like calculations of even right now, they're trading at about an eight cap, versus, you know, recent transactions that have gone for, like, there was a recent acquisition with another similar self-storage company, and those self-storage units went for three caps.

So either way, you're; still, you're; still, you're still getting a huge discount to the private market value. And I think in a sale, you know, I think total with the Athletic Club combined, you know, you're getting, you know, say on the low end, 7000 on the high end, $10,000 a unit on a $4,000 a unit stock price. So it could be a special situation that I just don't like to bank on that actually happening. So, you know, it's, it's likely if that doesn't happen, the stock will go down from 4000, a little bit. But if it does happen, you know, I think, I think you get a lot more than 4000. And then looking at Brookfield asset management, right? I mean, they have an asset management business, which you'd have to put on some kind of higher multiple, and then you just add up all the limited partnerships that they own, and all the real and all the other private funds that own add the two together, and you get a market price for that.

So I was paying, you know, maybe 70 cents on the dollar. For a company that's been growing double digits for 20 years, plus under Bruce flat, who's one of the best real estate investors in the world. So that's a company where I'm willing to pay a little bit closer; I would honestly pay what I think is fair value for the company and hold it for 20 years; I think you would do very well. And then there was a company you know, I mentioned earlier, there's another large holding of mine, I say mine, both myself and my investors, that Granite State Capitol called Cedar real cedar Realty trust CDR, the ticker, and that was a situation they own, it's pretty much all grocery-anchored retail.

So retail and grocery-anchored retail actually goes for very different prices. So grocery-anchored retail is just considered a lot more stable. So the cap rates are lower than just general retailer, you know, with with the yellow cricket cell phone thing, you know, the kind of junky retail stuff, and they're always going in and out. But during COVID, you know, some of the tenants stopped paying your car, you know, SR Realty has a lot of debt. So there were fears that oh, this company could go bankrupt, and I looked at this, and I go, there's no way this going bankrupt, like this is grocery-anchored retail, like, they think they're gonna, they're gonna recoup this will be fine.

And I was able to buy a girl, you know, this, this asset at close to a 10% cap rate, where historically this thing has been going for like six, seven caps publicly traded. And there was some activism going on. So there was there were a few funds that were involved. So I figured out there's there is a potential catalyst there; the management was even on record saying that they had been offered a price for the company they were willing to sell. And then when COVID had it, it screwed everything up. And that was, you know, a much higher price than what the current mark, you know, what the current market cap was at the time, you know, I, you know, it's up like 200% Right now, for me, but I mean, people who got the even earlier drop, like 500% for them from the lows, and this is just crushing anchored retail, right. So, you know, again, nothing, there was nothing wrong with it, it was temporarily impaired, but structurally was fine. And you could get it really, really, really high cap rates. So and there was a potential catalyst. And you could see that like the man who was willing to sell so again, that, you know, there are different ways of looking at it. But you know, you, you just don't want to get stuck in something where you really have a corrupt management team; there's no way things will change. And if things have been going like that for 20 years, who's to say I won't go on for another 20 years, like then,

[DAVE] Yeah, that's very true. So how do you we you've talked a little bit about management over the last few companies you've talked about? So how do you go about assessing management? What are some things that, you know, beginner slash intermediate, intermediate level people could look at to really give them a sense of what you're talking about with management?

[ERIC] Yeah, sure. So with a real estate company, you know, have they done positive things for shareholders, right? I mean, You know, typically, if you look at a stock chart and things flat for 30 years, it's probably not a good management team. So, you know, what are their salaries look like, you know, what, are they being paid to manage this real estate essentially? Or are their incentives aligned? Right? Do you have a history of good capital allocation? I mean, that's, that's a big one, right? Because some of these companies, again, might just be in it to grow at whatever price possible, just so they can make more money on the managerial and say, well, we own a billion assets now, have they bought back stock when they thought the stock was cheap? Have I sold stock at opportune times to buy, you know, cheaper real estate? How, you know, for more stable REITs? You know, has the distribution has the dividend been going up over time?

You know, if you look at the partnerships under Brookfield, right, they say, you know, here's what we sort of target. Here's the history of distribution growth; it's pretty consistent growth, right? Management's very aligned with shareholders. You know, I would say study Brookfield, you know, read, read the Brookfield shareholder letters from Brookfield asset management, but then also read the partnership shareholder letters from the individual public partnerships. And, you know, you could see they're very, very, very shareholder aligned at those companies, and they really understand the value and, and, you know, and Brookfield owns a big chunk of those partnerships, too. So if they go down Brookfield, you know, we'd get hurt with them.

[DAVE] Yeah, those, those are good insights. So I guess thinking along those lines, do you find that management across different sectors is different? Or are these things about REITs? You know, if we look at the transfer of these ideas to attack or to, I don't have energy is there are we looking at the same things?

[ERIC] I mean, there are similar principles. I mean, the thing is, it is like a dishonest management team, and a REIT is really scary, or any kind of real estate company because and this actually happened when REITs first came into existence, I think it was like it was under Dwight Eisenhower. So I guess the 50s, I think it was the 50s it was, okay, there was a lot of, you know, this is before interest rates, you know, where inflation was really getting underway, but there was a real hype around around around REITs, just because we can buy real estate assets.

But there were a lot of accounting shenanigans because it's much easier to manipulate, you know, numbers and accounting numbers, with owning real estate than it is, you know, owning, you know, manipulating cash flows of, you know, a tech company or something. So, you have an untrust, where the management and they're getting paid a percentage of the assets or something like that, you know, who's to stop them from, you know, fudging the numbers a little bit and saying, Well, this is worth X, when really it should be worth, you know, half of x or something like that. So, it's a little bit you need to trust management a lot more, I think, when you're coming down to look at real estate.

The other thing that definitely translates is, you know, the whole concept of empire-building, you know, so there's a real incentive to Empire build if you own real estate right, especially in this, especially in this interest rate environment. Right, I get this raised asset and buy things and make a six 7% return you know, sell a lot of stock grow a company people are fine with it because it's better than making you know, you know, they're 2% or 3% somewhere else. So he's a lot of people getting rich executives getting very, very rich, and the shareholders are not you know, they're getting bond-like returns over decades all this while the executives make millions it's pretty disgusting.

So there are some incentives like there's some overlap there. Certainly different industries it's easier to get away with certain things I think like other industries that are notorious that you have to really watch out for is like you know, mining, oil, and gas mining tend to even be worse than oil and gas you just have a lot of these like some crazy stuff I've seen over the years you know lying about reserves or you know, do you do like one little drilling sale there's some gold here, and then you raise a bunch of money internal that's the only power some like gold specks and I've seen the site I've seen companies hire scientists to fudge you know, mineral deposit numbers, or it's insane.

And some of these guys that go from like mining company to mining company and do like their little scams and, and get away with it. So yeah, certainly, I think commodities in general, you have to be careful with but yeah, every every every industry was going to have their own dynamics. But you know, what, you could almost say, Well, what is it what does it mean to have ethical management right at the overtime and consistent what they said they were gonna do? Have they under promise and over-delivered? Or do they over promise and then have excuses about the weather, why they don't deliver? So there are all these nuances where I think sometimes you read enough of these old conferences called transcripts, investor presentation, Patients talk to enough people. There's a lot of nuances to that you start to see in specific situations; it's just so hard to give you these like overarching, you know, principles because they are going to be applied so differently, different companies and industries.

[ANDREW] It's very helpful. I know Dave, you we've talked before you saw this thing on Twitter about how somebody found a way to identify when somebody is doing that whole jumping thing from company to company to kind of stay away from management who might be less ethical. Do you remember what that was?

[DAVE] I don't know. Sorry.

[ANDREW] Well, I'll tell you there's a Go ahead. No, that'd be great. Okay, explain.

[ERIC] Yeah, there's, there's one thing that I've seen, and I don't know if this is an if this is going on. But I was at an annual meeting of like, a 4 million $5 million, very tiny company. And I was one of like, two people there this annual meeting. And I don't even want to say the name because I'm like, actually nervous; they would like the company would try to pull some shenanigans on me. Like, if the thing was run by crap like literally run by criminals. And it was horrifying to see this actual theft happening in real-time. You know, that happened in this little conference room. They tried to kick us out. They screamed at my friend like it was hot. It was crazy. And they were saying, Well, you know, Eric's not a shareholder, and I wasn't. So they, my friend, gave me a share by proxy, like, like, they just kept, they kept pulling everything in the book, to have what was about to happen, not be

[DAVE] Public

[ERIC] Public. Course we saw it. And you know, they there was this land deal that they were doing where their lawyer was there, too. And my friend asked a question about this piece of real estate that they sold. And it was like, you know, you sold it for just making it up. Like, you know, you sold it for three and a half million. But didn't you tell me it was worth 5 million, as a few months before? It's like, well, the time that's what it was worth, but this is what we got for it. He goes, Well, would you be surprised if I talked to someone who said he offered to buy it for 7 million, but you didn't take this offer, but you sold it for three and a half? And the lawyers like Well, that was just what was in the best interest for shareholders and, and is like, well, why'd you do? Well, that's not germane to the meaning of what?

So it's like, you put the pieces together. And it's like, they probably just sold it to like one of their friends and then took an interest in the property or something. And they're literally stealing from shareholders. There was also a spin-off transaction that they ended up canceling, which I don't know why they ended up canceling it; maybe they're afraid of litigation; there was this a spin-off transaction they were going to do. So it was somebody, so my friend goes, Oh, so you're gonna have such shareholders, we're gonna have two stocks, right? Because it was like they had there, they have their main business, and they were gonna be spinning off their main business.

So they could, and then there was gonna be an empty shell as the second business. And the CEO was like, well, we're doing the spin-off so that shareholders could have a clean slate, and then they had a whole business model, what they were gonna do with the clean slate. And he goes this way we get, you know, shareholders get to rid themselves of all our liabilities. Well, it turned out most of the liabilities weren't like deferred revenue. So what they were doing was literally stripping the entire company of all the assets, leaving shareholders with a blank shell, calling it a spin-off of the blank, you know, and they were going to spin off the assets to a separate private company that was not going to be owned by shareholders. It turned out the owners of this private company were like the CEO and some of the people on the board. And it's like, well, if you think these are such horrible assets, and why you are buying them, and the lawyers have less on germane to the meeting.

[DAVE] I object, Your Honor.

[ERIC] So, but the reason I bring this up is that when I Googled this guy, one of the guys was who was one of the nastier ones on the board. It turned out he was a former New York City prosecutor, right, so he probably knows a thing or two but how to navigate the legal system. And it turned on; he was on the board of like 10 Other publicly traded companies to there were also tiny, tiny micro caps. So what up my theory is, is that these guys are committing fraud. Right? And but they're doing it; it's such a small level, right? They're

probably just skimming a few 100k Even if they make 100k off all those transactions, and they do it with ten tiny little companies, that's a million dollars a year they're making from that, right.

So Right. And it's, and the problem is, it's hard to get these guys because, you know, that was like a three $4 million company market cap, but are you going to spend a million dollars or say $500,000 in litigation for your $100,000 position or something so these guys can get away with it for years. And the problem is, you contact the SCC, most of them won't do anything is too small. You know, there was there's twice right on fraud and tiny little companies. Both times are reported to the SCC. Nothing ever happened. And so, You know, I think it creates this fraud essentially where people even work the little tiny companies to skim off the top, but not enough to get the SCC to notice and terrible.

[DAVE] Yeah, it is horrible. I agree,

[ANDREW] Does bring light into, you know, really doing your due diligence; if you're looking at these tiny, tiny companies, you had some really great insights today. And we want to thank you for, you know, all the examples and stories you gave, hopefully, people who are looking into investing in companies or maybe more on the hard asset side, whether that's a REIT, whether that's something else, they have something to come out with, that they can help either avoid big trouble or find a great deal. So you know, you've been on the show a couple of times. But for the people who are just tuning in for the first time with you, where's the best place that people can find out more about you and get in tune with what you're doing online?

[ERIC] Yeah, sure. So if they want to check out my investment management company, I do manage separately managed accounts, and you know, I'm taking new investors the time on, so if, if people were interested in learning more about me or would like to contact me or even potentially invest with me, and you're someone who is, you know, long term minded, and you're aligned with the value approach, I would actually love for you to contact me and my, my website for Granite State Capital Management is GSCM.CO.

And then, as Dave said earlier, I do have my own podcast; if they want to listen to my podcast, it's the Intelligent Investing podcast. And they can just, you know if you can put a link to the show, but it's intelligent investing pod bean.com. And you can check out the show there. And then, you know, the first sort of my generation, you know, if you have Instagram or Twitter, I guess the older generation too, but I'm not gonna discriminate against age, you know, I'm on Twitter and Instagram. It's just my name Eric Schleien kind of hard to spell. So I would just ask you guys to put that in the show notes, too, of course. And that's for Instagram and Twitter; I have I do respond to every single message I get on Instagram with that investment-related on so you know if you wanted, you know, to talk to me a little bit more about what I discussed in the show, or just have general questions for me. I love helping people. So I'm always happy to help, and you can DM me or shoot me a thing on Twitter, and happy to connect. I love doing this.

[ANDREW] What about if I'm a fraudulent corporate?

[ERIC] Get the hell away from even I don't even want to do it all.

[ANDREW] All the corporate lawyers,

[ERIC] You can call me at 555555 fraudulent corporate lawyers.

[DAVE] Good luck getting through.

[ERIC] I'm very, very busy on that one. So try a few times

[DAVE] It Might be a busy signal. Just go back. Leave a message. I'll get back to you. Right. All right. Well, Eric, thank you very much for coming to join us. We really appreciate it. It's always fun. And you always bring such great stories and great insights into lots of things that we just don't think about, which is really cool. So we appreciate you sharing all that with us. And everybody checks out his site, check out his podcast. Definitely reach out to him on Instagram or Twitter. I have, and he does respond, so I can vouch for that. So without any further ado, I'm going to go ahead and sign us off; you guys go out there and invest with a margin of safety. Emphasis on the safety. Have a great week. Talk to you next week.

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