Rich Howe Joins Us to Educate Us Concerning Spinoff Investing

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Dave

0:00

All right, folks, welcome to Investing for Beginners Podcast. Today we are excited because we have a special guest. We have Richard Howe, who is the founder of Stock Spin Off Investing newsletter and head of research at Betterway. And he's here to talk about a spin off investing, which is something we have not discussed much.

And I am not as familiar with this as I should be. And so Richard is here to educate both you and I. And so Richard are Rich, thanks for joining us today. We appreciate having you. And I guess maybe can we start a little bit with maybe how you got started in spin off investing? And maybe a touch on your background? How you got here today? Of course,

Rich

0:36

yeah. Well, first of all, thanks so much, guys, for having me on the podcast. It's always fun to talk spin offs. That's what I do all the time. So I was looking forward to this. So um, yeah, in terms of my background, so I grew up in the Boston area, and my parents were both in the investment business. My dad was a large cap value Portfolio Manager. My mom was an analyst for PIMCO bond analyst for PIMCO.

And so I had that as a little bit of a backdrop. For some reason, I was always interested in investing pretty close with my dad. And so that was something that we could talk about a lot throughout the years, just investing, and he could teach me all that he knew. So I knew pretty early that I wanted to go into investing, you know, even when I was in high school and college, you know, I joined the investment club in high school and college and did that and tried to read as much as I could and get smart.

And I started my career in in Boston at a firm called the Eaton Vance, who has since been acquired by Morgan Stanley, and their equity research group. So we covered mainly large cap stocks, it was an awesome place to start my career, learned a lot, you know, did the CFA Program, which was really helpful, and got to cover a wide variety of sectors. And I really enjoyed that. We were very focused on large cap stocks. So biggest of the big. And so I found that interesting, but I also noticed, it's pretty hard, it's pretty hard to consistently beat the market when you're competing against a lot of, you know, hundreds of 1000s of very smart people and PhDs and MBAs. And so I found the micro cap world and the small cap world, and especially situation world, a little bit more interesting.

I read Joel Greenblatt's, you can be a stock market genius, which you know, many people have. And if you haven't read it, I definitely recommend checking out that book. But it was kind of one of those moments when a light bulb went off. And I was like, Oh, my gosh, this is so cool. So from that point on that guy, right, in probably 2007, or 2008, I was very excited about learning about spin offs, just because it seemed to be an inefficient marketplace, and an era where somebody like me, who wasn't, you know, a PhD or an MBA could just do some good bottom up research and find some good opportunities. And the odds, it appeared would be kind of stacked in my favor. And so that's how I got really interested in special situations and invest in spin offs.

Andrew

3:02

That's really cool. How would you describe a spin off to somebody who is just barely interested in the stock market and has no idea what you mean, when you say spin offs?

Rich

3:12

Yeah, so great question. Yeah. So a spin off is basically when a publicly traded company breaks up into two or more publicly traded companies. So a big company that probably many people have heard of, is General Electric. And so they are a big industrial conglomerate. They have a power division, a healthcare division and a industrials division, or let's see, they have healthcare, they have a power generation, and then aerospace.

So those are the three divisions. And the whole idea generally with conglomerates, is they traded a discount to their some of the parts. And so the thesis is that if you separate a conglomerate into pure play companies, Wall Street and other investors are going to value the stock higher on an individual basis than it would when it's all lumped together. So spin off is essentially when a company decides to either spin off a smaller division, or break up the entire company into three or more divisions.

But the whole thought process around it is that you're going to increase the value it's going to be a lot easier to understand for investors and all your individual parts, your individual divisions will be valued as pure plays. And so that's kind of a brief overview of exactly what a spin off is. There are lots of different types of spouts. But that's kind of a general description of what a spin off is.

Andrew

4:44

It's a great description and I have so many questions. I'm gonna really try not to bombard you never be bring no value to anybody. But you mentioned getting first interested in this in 2008. So you've had observation experience And you've seen it in real time how different market cycles can really bring a lot of different aspects into the finance world. So in the spin off world, are there certain cycles that are better for spin offs? And are there certain market environments where you will see more spin offs than not?

Rich

5:21

Yeah, so generally, in an environment like last year 2021, when the market is at an all time high, and valuations are at the high end of what they typically are, spin offs are a good way to like squeeze that last juice out of a valuation. So if you're trading at a, you know, 25, pe price to earnings multiple, but you think on some of the parts basis, you can, you know, one division should be trading at 30 or 40 times earnings, and you can increase your value of your company that way, I'd say it's pretty procyclical, meaning that more spin offs get announced when market conditions are good.

Like during the pandemic, there was like a period where very few spin offs were announced, because everybody was just battening down the hatches just trying to make sure that their businesses could survive through the pandemic. And then spin off announcements really started to ramp up towards the end of 2020, into 2021, into into the bull market, I'd say the best time to invest in spin offs is times like this, when the markets in a little bit of a dislocation spin off that were announced that made a lot of sense last year, or six or 12 months make even more sense now. Because valuations have come down a lot.

And then there's just a lot of confusion in the market. And everybody's just trying to understand their portfolio. And everybody's trying to weed out the winners from the losers. And they're not as many eyes looking at spin offs and other special situations. So I'd say more tend to get announced and bullish times. But the best time to invest is a time like this when the markets in a little bit of a dislocation and a little bit of the bear market. And you can find some pretty interesting setups.

Andrew

7:05

That's interesting. It makes it very timely for us today. Yeah. So when you say invest in spin offs? What's the timing behind that? What are the major events that are tied with the spin off? And what do you mean for the buy and the sell? When you say, invest in spin offs?

Rich

7:21

Yeah, great question. And there's so many different ways you can approach it. So typically, a company will announce that it is breaking up, or we're going to be spinning off a division. And then And usually, the stock will pop anywhere from you know, five, or 10% or 20%. And then usually, the stock price will kind of fade back down. So I don't typically get involved. When a company announces a spin off, I'll put it on my spin off calendar, which I keep on my website, I'll start a notes section on my website, where I just kind of track Hey, this spin off was announced. Here's the basic some of the parts thesis, it looks like this at a high level, this transaction is interesting or isn't interesting. And I'll start to track it from that point on. But usually, I'm not going to be investing until closer to the actual spin off event, or until after the spin off actually takes place. But you know, typically a spin up as announced, it usually takes six months to two years or three years for the spin off transaction to actually take place.

So I call it spin off purgatory. A lot of times these big industrial companies will say, Hey, we're breaking up like I don't know, when GE first announced that it was breaking up, but I think it was like two or three years ago, and it's like, hey, everybody gets excited. And then we have a pandemic. And then we have a bull market. And we have a bear market. And so there's no real rush usually to get involved unless the timing is going to happen incredibly quickly. And then I've also found so So typically, when you're investing in spin offs, you're trying to take advantage of some of the parts thesis some of the parts means that the parts of the company, if they were valued independently, they would result in more a bigger market cap than the company is currently trading at, you know, pre breakup. I've found through hard experience that typically some of the parts, theses don't really play out until the catalyst actually takes place or until very shortly before the catalyst takes place. I'll give you an example.

So a company called the IAC, I don't know if you guys are familiar with it, but it's a holding company. It's run it was started by or taken over really by Barry Diller and Joey Levine is the CEO and they have a great track record of buying incubating businesses and then ultimately spinning them off. So to a spin off investor. It's a company that I follow very closely. Some examples of companies that they've incubated and spun off our match.com I think they founded Tinder and or acquired Tinder and then eventually rolled it into match.

TripAdvisor was another company that they incubated and then ultimately sold out. spun off. Vimeo is the latest example of a company that they've spun off and just a company that they're incubating. And the reason why I talked about ICX is because it's very easy to do the sum of the parts math for IC, because they have a lot of different holdings that are publicly traded. And that are very easy to value, you can add up all the equity stakes that they own plus the cash, subtract the debt and say, Hey, is it trading at a is the stock price at a discount or premium to the sum of the parts valuation. And it's very easy to get sucked into and want to buy a company like IC, which I actually think looks pretty attractive.

But it usually pays to wait until a catalyst is about to unfold. And or a catalyst is about to play out. I'll give you an example. So in 2020, I see prior to the pandemic had announced that they're going to be spinning off their stake in match.com. So the dating website, and at the time, it looked like a really compelling situation because the time I see owned a stake in Max, they also own a stake in Angie home services. And if you bought and then subtracted their ownership stake in Angie home services, and or if you bought ICX and subtracted IC stake and match and they're sticking Angie, the remaining company was valued at like negative 1.2 or $1.7 billion. So like it was just like an anomaly in the market. And that that was the valuation when the transaction when the spin off transaction was announced. But then you could wait till the week before the spin off, instill buy into IOC and then basically get 80% of your value back through that match spin off and then your remaining your remaining stake which the market was valued at negative, you know, $1.7 billion, had a lot of value, including Vimeo, which was subsequently spun off. And Angie Home Services, which hasn't done as well. But typically, there's a lot of different ways that you can, you know, play spin off transactions.

The way that I played, the icy transaction was I bought, I see prior to the spin off of match, so I waited, and I bought in prior to the actual spin off transaction. But I'd say my preferred way to play transactions or spin off transactions is I love it when a big company a big market cap company spins off a small market cap company, because there's just it leads to indiscriminate selling pressure. And I can get into the reason why that takes place. But just to give you a little example, so a company called a VF Corp, they have a bunch of fast growing brands, like North Face, and vans, and some other you know, highly profitable apparel brands that are pretty well regarded.

They spun off this was I think in 2019, they spun off their denim brands, their wrangler denim brand into a company called contour brands. And nobody was that excited about wrangler brands or Wrangler Jeans. And also the spin off of contour brands was going to be a small market cap. So the market cap, I think was about one or $2 billion. And at the time, the parent company VF Corp had a market cap of $30 billion. And so a lot of the people that had chosen to buy VF Corp wanted to invest in large cap stocks, they had no business or no mandate to invest in small cap stocks. So when they get a small cap spinoff, the easiest thing for them to do is to just sell that stock regardless of what the price is.

Because if they're not paid to manage small cap stocks, they're not interested in small cap stocks. So those are the situations that I like the best, where they're selling pressure that is just completely indiscriminate. And if you analyze the business ahead of time, like I spent a lot of time on contour brands, I thought it was a pretty interesting business, they're going to pay a nice dividend, you can take advantage of that indiscriminate selling pressure and buy from people who are less informed than you are. So that's my favorite way to play spin offs, where you're buying a company that's being indiscriminately sold that you think is worth a lot more than the market is valuing.

Dave

14:00

That's awesome. So two questions. Number one, if you're an investor in VF Corp, and when they spun off contour brands, how would I benefit from that? If I continued holding VF Corp? What does that do for me?

Rich

14:14

Yeah, great question. So you on the day before the spin off, you would own 100 shares of VF Corp. And then the next day after the spin off, you would own 100 shares of VF Corp. and you would also own 100 shares of contour brands. So you would basically be shareholders your ownership percentage wouldn't change, but you would just own two different companies which should be valued at higher valuations over time once the spin off has been given some time to establish itself and establish a track record.

Dave

14:45

Okay, that answers that first question. So the second question then is if I own the shares of VF Corp and then the spin off contour brands, do most investors stay with contour brands or do they go I am talking more about individual investors as opposed to big funds that have, like you said, mandates? So as an individual investor, is it my best interest to stay with contour brands? Or is it my best interest to sell those shares in, I guess, take advantage of, you know, a price dislocation and stay with VF Corp? Or does it really kind of come down to what is more important to the fundamentals of that company versus the fundamentals the contour brand?

Rich

15:22

Yeah, so great question. So historically, spin offs have outperformed. So that's why it's an interesting niche that I focus on, because historically, if you just bought all the spin offs, going back till, you know, 9090, or whatever, you would have done quite well, you would have outperformed the market. So on average, the spin offs will do really well and be better off to keep the holdings of Contra brands in this case, but it really is a case by case situation. And usually you're going to there's going to be indiscriminate selling pressure. So if you want it to, you could probably sell and then buy back at a lower price. If you really wanted to get fancy about it, there's a lot of spin offs, I say on average, they outperform but they definitely don't all outperform. And there's many that go bankrupt.

Sometimes parent companies, they say, Hey, I want to get rid of a lot of debt, I'm going to just put it on the spin off. And you know, people like spin offs, quote, unquote, outperform. And so you got to be careful. Unless I'm buying a company like I see ahead of the spin off where I think the parts are going to be valued pretty immediately above where the stock is, the parent company is trading pre spin off, what I usually look for is I look for about 40%, or 60% of shares outstanding to have traded, because that shows me that a lot of people the market cap almost the entire market cap of the company, about 50% of the market cap of the company, the shares have traded, and that means the index funds have sold out, you know, the index funds that track the s&p 500 that don't want to own contra brands, because contributions is not in the s&p 500.

They've sold out all the big funds that are focused on large cap stocks have sold out. And that gives me that's usually if you want to buy a spin off, that's usually what you want to look for. And then in terms of figuring out how to find how many shares have traded, so I just use Yahoo Finance, they have data there that just shows how many shares have traded per day. And so I usually wait, I can just, you know, add them up. And I wait till you know, at least 40% of shares have traded before I dip my toe into buying the spin off.

Andrew

17:26

So far, the percent of shares after the spin off has happened. The spin off company.

Rich

17:31

Exactly right. Yeah. So if there's 100 million shares outstanding of the spin off company, you want to wait till roughly you know, 40 million of those have traded, it usually takes at least a couple of weeks, you know, at least a week, usually two weeks, sometimes even longer than that, for those shares to trade. The tricky thing is sometimes it's hard to figure out how many shares outstanding a spinoff has.

Because sometimes it's not, hey, you own one share of VF Corp, you're going to get one share of contraband, sometimes it's you're gonna get one share of controvert brands for every five shares of VF Corp that you own. So sometimes it can be a little tricky. But yeah, you want to figure out how many shares are outstanding, and then just add up how many shares have traded and you can do that on Yahoo Finance, or probably Google Finance or some other similar service.

Dave

18:20

Stupid question that kind of pops into my head, when I think about this is when they announced that they're going to spin off a company, do they have to go through the same process that they would if they were going to IPO a company? In other words, do they have to release financials on that segment so that the market can work and figure out how well they think this company is going to do. And I'll throw on an example, Intel, a company that I own, that has been bloodied quite badly in the market recently, is been talking about spinning off Mobileye, which is one of their divisions.

And I think a lot of shareholders that own Intel are probably like, please. Me being one of them. And so I know that mobile is the IPO or the IPO, the spin off is coming, but I guess I haven't dived into it enough to know are they going to show me these are the financials for Mobileye in a or any other companies that is that how does that process work?

Rich

19:16

It's an awesome question. And I would say it's very similar to the IPO process. So when a company is going to IPO it has to file an S one, which shows the historical financials, historical profitability, the strategy of the business, everything that you would want to know. So for a spin off, they filed the same type document. It's called a Form 10 Information Statement. And it shows the pro forma financials for the spin off company assuming that the spin off company had been independent, and sometimes they have to estimate costs, for instance, their cost to being a public company.

So sometimes they always add costs associated with being a public company, or perhaps they're dis synergies you have to hire another HR department or whatever else in terms of Being a public company, but you will be able to get all that information from the form 10 statement. Now the one caveat, and this is the big thing, why spin offs are usually pretty interesting is that with an S Swan, or with an IPO, there's a lot of hubbub, everybody gets excited investment bankers actually get paid to sell those shares to their client. So people who buy shares and IPO are usually sold those shares in a spin off transaction. You didn't choose to buy the shares of the spin off, you're gonna get it whether or not you want it or not. And so there's usually artificial buying pressure on IPOs. And there's usually artificial selling pressure on spin offs. Of course, every individual example has to be examined on its own merits. But that's the general pressure.

That's and that's the big difference, I would say between IPOs and spin offs. The other interesting thing is that a lot of times you'll read in the press, Intel is going to spin off Mobileye. Well, they're not as I understand that they're not going to spin off Mobileye. As I understand it, they're going to IPO mobilize. So you're not going to get any shares of Mobileye, unless they actually spin out, Mobileye over time. And in terms of unlocking a conglomerate discount it usually, if you IPO a division, it usually doesn't do much to close the conglomerate discount, because the shareholders aren't getting any value.

You know, Intel could use the proceeds from Mobileye to pay down debt or add cash on their balance sheet or maybe make other acquisitions, but you're not going to get those shares. Now, what I think would be interesting is if Intel, maybe IPO 20% of Mobileye, and then said, Hey, we're gonna spin off 80%, the remaining 80% of the business, and then you have Intel, which is, you know, trading five times earnings, spinning off Mobileye, which should trade at a much higher multiple, and I think that's where it gets interesting. But that's another thing to be aware of the media usually throws around, you know, anytime a big company is gonna IPO a division, they refer to it as a spin off, sometimes it is a spin up, but sometimes it's not.

Dave

22:15

So I guess, can we, I guess, double click on that a little bit, what is the what would be the difference then? How do you IPO of a division that already works for your you know, that's already owned by your business? I guess I don't, that doesn't compute.

Rich

22:28

Yeah, so Intel bought Mobileye. I forget when they bought it maybe three years ago, and I don't know what they paid, but they paid, you know, billions of dollars for that. And so they own that division right? Now, they could, as you are a shareholder of Intel, you own 100 shares of Intel management could say, hey, we don't think our company's getting fairly valued. You know, we have this high growth division, Mobileye, that's doing really well, we don't think we're getting fairly valued by the market. So we're going to spin out Mobileye.

So we're going to if you own 100 shares of Intel today, tomorrow, you're going to own 100 shares of Intel, and 100 shares of Mobileye. And Intel, at that point, wouldn't own any shares of Mobileye, they would be completely independent businesses. But you would own the same proportional stake in either one. That's a pure spin off an IPO was when Intel says, Hey, I have Mobileye. It's, you know, our whole company is valued at I don't know, Intel's valuation is 40 billion, 50 billion. We think Mobileye is worth I'm doing a I'm just exaggerating this just for the sake of argument. We think Mobileye by itself is worth 50. Bill.

So I'm going to IPO I'm going to sell 50% of Mobileye, and other individual investors, and then I Intel, I'm going to get that cash. So after the IPO, I'm going to own Intel, the company is going to own 50% of Mobileye, but they're also going to own a bunch of cash, and you as the individual investor, are just going to continue to own Intel. And if Intel does something smart with that cash, that's great, that could increase your holder value, but it's not necessarily guaranteed that it'll play out. Does that make sense?

Dave

24:09

Totally makes sense. It probably explains why I guess I would have been a little confused about it. Because I have seen both statements, like you're saying, I've seen things from the media saying spin off. But then I've also seen more specific data on the company website about IPO. And so I was confused. So that helps

Rich

24:26

show the confusing. It's, I think that's one thing, whenever I see like, monitor Google Alerts, that's one of the tools that I use to keep track of spin off news. And a lot of times, there'll be articles, hey, this division is going to spin off this division, and then I dig into it. And it's not actually a spin off. It's just an IPO. Now, sometimes it's interesting, like sometimes like Intel will IPO portion of the business to get some cash in the door, and then they'll spin out the remaining portion. So if that were to happen, that would get me a lot more excited about the Intel situation.

Andrew

24:55

Right? That makes sense. So is it the presence of the SEC Doc, you MIT that tells you this is a spin off.

Rich

25:02

Exactly right. Yeah. So if so, yeah, so anytime there's going to be a spin off, there will be a document. It's a little confusing. Sometimes I've seen spin offs be labeled S one documents, even though they're just, they're not IPOs. They're just distributions. But basically, what you want. So in terms of deciding whether or not it's actually spin up for an IPO, if you just go, don't rely on the press, you know, go to the company's website and say, Hey, what's the plan, they'll have a press release that says, hey, we're going to spin off this division, or we're going to monetize or IPO this division. And so I think the best thing to do is to just go to the company's website, or maybe reach out to their investor relations department say, hey, is this an IPO? Or am I as a shareholder actually going to receive these shares in this new division?

Andrew

25:50

Makes a lot of sense. So what are some of the risks pitfalls that you see people do when you know what should bring a red flag to tell somebody, Hey, either stay away from the spin off, or be careful with what you're looking at what you're doing?

Rich

26:05

Yeah, pump the brakes. So I think the first thing that can be tricky is that you know, I wasn't the only one that read Joel Greenblatt's, you can be a stock market genius. A lot of other people read it and have the same reaction said, Hey, this is great spin offs always outperform, I'm just gonna buy spin offs. And I think you can do that. And you can be totally, you can probably be fine doing that. I think an accurate spin offs will in general continue to outperform. But there's more people looking at spin offs, it's gotten more competitive. And so the first thing that I would say to somebody who's looking to invest in the spin off or value to spin off, is try to get rid of your bias that this is a stock that's probably going to outperform because it's a spin off. I've gotten sucked into that, to where it's like, oh, it's a spin off, you know, Greenblatt says these things outperform, I should buy this thing, you got a little bias, what you want to do is you just want to evaluate the merits of the business, just like you would do any other stock. And if you think this is a company that you want to own, then that's interesting. And if you think the valuation is attractive, that's even more interesting.

And then the cherry on top is the indiscriminate selling pressure. So with contour brands, you know, jeans, denim isn't the sexiest business, it's not a growth business, necessarily. But people have been wearing, you know, jeans for hundreds of years, I think they're going to be wearing jeans, for hundreds of years going forward, the styles may change, but I think people are probably going to be wearing jeans, I had confidence in the durability of the business. I had confidence in the cash flow, generative ability of the business. And then I looked at other apparel companies, and I could see what typical apparel companies trade at. And then by reading the form 10 statement ahead of the spin off, you could read into the fact that contrabands was I was planning to pay a pretty juicy dividend.

And so we saw indiscriminate selling pressure, and I was able to buy at an implied yield of like eight or 9% dividend yield, which was like double or triple any other yields for apparel stocks. So it wasn't just because it was a spin off is because I thought the business was good, I thought the valuation was attractive. And then the cherry on top was the indiscriminate selling pressure. Now other red flags that I typically look at, I'd say wait on some of the parts stories. As long as possible, I gave you the example of ice and how you could buy ice literally the day before the match spin off and be buying the remain co the ice remain CO at a implied negative market valuation. So in general, I would say wait as long as possible to get involved with the spin off stories. And then some other things that are kind of obvious. It's not any different than whether you're valuing a normal company. But generally, you want a company that's growing. Generally, you want a company that's stable and has improving margins. Generally you want a company that's not in secular decline, a lot of spin offs are in businesses that aren't doing very well. And especially if that company is very highly levered, that can be a very bad setup. Joel Greenblatt in his book, he said, one of his rules was like, buy the toxic waste.

So by the stuff that looks horrible, that nobody else is going to want to touch with a 10 foot pole. And my experience is that a lot of the toxic waste is actually toxic waste. And so you have to do your research. And if it looks just incredibly compelling, like then you can get involved, but just because it looks horrible, done is not a reason to get involved. It's maybe a reason to dive deeper. I'll give an example like Anglo American is a British mining company. They spun off a coal company, South African coal company called Fun gala resources that looked like toxic waste. Nobody wants to buy coal companies. If you have any interest in ESG or saving the world, you're not going to be interested in it. million in ESG, or a coal company.

But if you looked at the underlying financials, the company when it was spun out, had no debt, it had a ton of cash on its balance sheet. And coal prices were going to the moon. And it looked like the business was trading at about one and a half to two times free cash flow. And they said, We're going to be paying out basically 50% of our free cash flow as a dividend. And so all those factors led me to, to buy that stock and to want to buy that company, even though it looked like toxic waste. If you dug around you said, actually, this looks like pretty interesting downsides mitigated because they have cash on their balance sheet, coal prices are going crazy, and they're going to pay out a big dividend.

And so that was a situation where toxic waste actually turned out to be very profitable. But I'd say more often than not the companies that have high debt loads, high interest rates, declining revenue, declining margins, those are names to stay away from.

Andrew

30:59

So I apologize if you mentioned this already. But for this coal company example, did you buy before the spin off or after the spin off,

Rich

31:08

so I bought this one after the spin off. So it was an example of a big company, I forget what Anglo Americans market cap was at the time, but it was something like $50 billion. And then this coal company, the South African coal company, their initial market cap was like a billion dollars, I think it was even less than that. So it was just a drop in the bucket for Anglo American shareholders. And so there's really no interest and shareholders. If you own Anglo American, you probably aren't that interested in owning coal, because it's bad for the environment. And it's very cyclical, historically, coal had been pretty depressed. I bought that one after the spinoff had actually actually come out. And I had a chance to read the equivalent of the form 10 read their presentation and listen to management and kind of double check, you know, the facts and and confirm that it looked like a pretty interesting situation.

Andrew

32:02

So if you had to put a number on it just very general, like, are we talking 5050 7525 9010? Of you're buying before? Because you liked the sum of the parts, or you're buying after because of the indiscriminate selling? What percentage have you done? And what do you think is, you know, to what percentage, I guess should people kind of think of it that way as good opportunities.

Rich

32:25

So I'm not definitely 9010 Buying after the spin off. So I buy after the spin off has actually taken place. And that's kind of what I would recommend, I guess one caveat, or when you can buy before the spin off is say you have sometimes there's usually a good company and a bad company and the Anglo American example, Anglo American was the good company, fun gala resources, the coal company was the bad company. And that situation, it always pays to wait till after the spin off. But say a company is breaking up. And there isn't going to be a good company in a bad company GE could actually be an example of this, healthcare is probably a good business, the aviation business is probably a good business in recovery in the car business is probably a good business too.

So a company like GE, I haven't done the work enough to really have conviction in this one. But an example of that one, that's one that we're you could buy ahead of the breakout, because there's going to be no bad company, quote, unquote, that's probably going to sell off. And so yeah, just to summarize, if there's a bad company that's going to be much smaller than the parent probably makes sense to wait. But if you have a, if there's going to be two divisions that are equally good, or three divisions that are equally good and equally interesting, then you could probably be safe buying ahead of the breakup. Especially if there's been like a big drawdown in the market like there has been recently it makes

Andrew

33:49

sense, I'm gonna throw one more at you. Kind of specific. So if you have a company, where it's in your portfolio, people have, like, there's speculation that there's going to be a spin off management's indicating that they'll probably do a spin off. Obviously, you don't want to do anything until you really see what the details are, I guess, if you were, let's say, you see the details, and you're like, ah, one of these spin offs is a bad is one of those like bad companies situations, you know, do you sell the whole company and then wait for the spin off to happen? And then you buy whatever's left afterwards? Or do you just wait until it all settles? And then kind of hope it recovers and then sell the spin off? Then how would you approach something like that?

Rich

34:32

So I think what the way that I would do that would usually if a spin off is going to be announced, usually the market will react well to it. One strategy could be Hey, when they announced the spin off, you could sell it on the pop and it's probably going to come back down and then you could buy back. You also could wait to the spin off happens and then just immediately sell shares. Another thing that's interesting is oftentimes I mean it, it's not that helpful, but the situations are different and it kind of depends on the situation.

But a lot of times the parent company will load up the spin off with debt. And so it's actually beneficial for the parent company to get all that cash on its balance sheet, spin off the spin off, or spin off their subsidiary with a bunch of debt. And even if there's very little equity value, you can just sell that once the spin off transaction takes place. Other times, there's situations where a division a money losing division will be spun off. And so by spinning off a money losing division, interestingly, the remain quo looks cheaper, like earnings actually go up for the remaining company, despite the fact that they're losing division. And so if there's a bad co spin off, I think my preferred way to do that would be to just sell once the spinoff actually actually takes place. So wait till the spinoff transaction takes place. And just to sell it.

Andrew

35:51

That's a good answer. Appreciate that. Yeah. So let's say there's investors out there, they're super interested in this, we're just getting started, you have a great newsletter, which I'm subscribed to that sends out these announcements, and there's like investment ideas in there all the time. So how can people get on your newsletter and learn more about spin offs in general?

Rich

36:14

Yes, yeah. So so thank you for subscribing. I didn't know that. So I appreciate that. So yeah, just go to go to my website, stock spin off investing.com. Or you could just search, you know, stock spin off investing, you could just Google it, and it should pop right up. And I have I think the best resource is I have a spin off calendar. And so you can see the spin offs that have already taken place, and how they're performing, and any notes that I've written on them.

And then I also have an upcoming spin off calendar, which shares any upcoming spin offs that are announced, if the first day trading has a date has been established, you can see the date and any again, any notes that I've written on it, and then I send out emails, you know, for emails every once in a while. And then if you want to figure out, you know, the names that I'm recommending that I send out a lot of free stock, but I also have a premium newsletter, where I share the ideas, I'm recommending that I'm buying myself. So that's also an option as well. But yeah, stock spin off. investing.com is the website. And then I'm also on Twitter as well. I also publish some stuff on Twitter. I don't know if you guys like Twitter, but I'm a fan of Twitter, I get a lot of value out of it. So well go ahead and follow Twitter as well.

Dave

37:26

Yeah, I'm a big fan. I will be following you after we discuss today. For sure. Well, Rich, thank you very much for taking the time to come talk to us today. This was awesome. I don't know about everybody else. But I learned so much. It was awesome. Oh, my head is just like spinning with all the great ideas you shared with us today. So we really appreciate that. Please definitely check out his website. I was doing that yesterday and it is fantastic. It's a great resource. There's lots of tons and tons and tons of great stuff there to help you learn more about stock spin off investing. So I guess without any further ado, go out there and invest with a margin of safety, emphasis on the safety. Have a great week and we'll talk to you all next week.