Secrets to Investing Success in Less Trendy Industries With Misfit Alpha

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have a really fun show. Today we have Tyler Crowe of Misfit Alpha. He writes a blog about finding stocks that you've never heard of. It's fascinating stuff. And he's a great writer. He's very good at breaking down complicated subjects so that even mere mortals like me can understand them. So, Tyler, thank you very much for joining the show today.

Dave [00:00:21]:

And maybe we could start with, you know, how did you get to where you are? How did Tyler go from young Tyler to still young Tyler in the investing world?

Tyler Crowe [00:00:29]:

Sure. I guess I kind of stumbled into it. I had finished graduate school, actually, overseas, and I came back to the states, happened to be in the Washington, DC area and had some friends working for the Motley fool. And I said, hey, that sounds pretty interesting, but didn't exactly have a whole lot of, a lot of experience with it. And so they happened to have, at the very time, they had a unique, like kind of beginners blog, I guess, you, if you will. And I started writing on that. It ended up just kind of continuing onto the writing role where I started working for them as a full time writing contractor, started doing some other things behind the scenes for them, and it just kind of took off from there. And I really enjoy the writing aspect of it because it kind of let me do it from anywhere in the world.

Tyler Crowe [00:01:11]:

And I've really put that to the fullest extent. Spent six years living in sub saharan Africa. Right now I'm in the republic of Georgia. So, you know, former post soviet republic, but it's absolutely lovely city. I'm going to actually pitch it right now. If you get a chance, come visit Georgia. It's wonderful. I'll show you a good time.

Tyler Crowe [00:01:29]:

But it's been a great experience to just kind of like, you know, write about what I see and kind of learn along the way. I'm sure anybody in our business that's done this for long enough, you go back and read something from 5610 years ago and you go, oh, man, I was an idiot back then.

Dave [00:01:47]:

Anytime we look back at things we did in the past and if we don't cringe, we're not growing, right? That's supposedly the phrase, yeah.

Tyler Crowe [00:01:53]:

And then a couple of years ago, I guess it would be a year and a half ago, I started my own project called Misfit Alpha, wherever. I, I think we all remember in 2022, we kind of had that, I guess you call it a down market. It wasn't like a, I guess it was a bear market. I don't know. I was kind of exposed a lot to energy to then. So I was like oh, this isn't too bad. But at the time I had this question because a lot of people are writing a lot of like financial media that I was kind of observing was like, you know, by the winners. And people that would say the winners always kind of landed on like know four or five companies, right? It was always talking about Amazon, always talking about Tesla, stuff like it almost kind of felt like when you watch like sports television now, all the debate shows, it's always Lakers, cowboys, the Cowboys.

Tyler Crowe [00:02:43]:

So I kind of went on this like, so who are the winners really? And so I just kind of like sat down for two months and I just went line by line, company by company, every publicly listed company, and just compared it over a really long period basically. Maybe since they buy Po'd or maybe 1015 years. And who's generated true alpha? Like who are the companies that just, you know, when you look at the chart, the S and P 500 looks like a flat line and they're just running laps around the best investments in the world. And 7500 companies later I kind of whittled down the list to about 675. Im going to say it was an imperfect thing. I didnt go all into banks because Ive always struggled with banks anyways and I was like theres no way Im going to be able to figure these out. So Ive got a few in the hopper but not something Im going to probably delve into too much. But it was a really fascinating kind of observation of the market because there were way more than I thought and there was a lot in places I wouldnt have ever expected.

Tyler Crowe [00:03:48]:

And theres sometimes theres these just pockets of incredible wealth building industries, not just like a couple companies, but sometimes there's these industries that have such a high probability of success it's like you could throw them all on a wall and throw darts and you'd probably come up with a good investment. So it's been a wonderful kind of experience for me. And with misfit Alpha I've tried to use that list of companies and say like, you know, obviously there are the Amazon Nvidias of the world that are on this that kind of made the list. But you know, there's so many others that nobody else talks about and kind of, you know, a little behind the curtain of financial media like we do. It's hard to stand out when you're talking about things like Tesla because there's 57 people making a call on it every day. But nobody's talking about advanced drainage systems. I can be your septic guy.

Dave [00:04:46]:

Perfect. That's awesome. So I guess what about stocks attracted you to them? Why invest in stocks? What is it about it that you find appealing?

Tyler Crowe [00:04:58]:

Well, this is going to sound kind of weird, but it's just that much easier, right? Like, yes, real estate is, can be a good investment, especially if you own private property. But, you know, the elbow work to do it is considerably harder kind of using that, that Charlie Munger. It's like if you can do your work on early and kind of put in the research and sit on your ass, you can probably do quite well. And so there's a certain appeal to that. Like I said at the beginning, you know, kind of traveling all around the world, it's a little bit easier to, you know, have a brokerage and buy them on the spot. But. But at the same time, I guess with the individual stocks, too, it just becomes a little bit of, you know, like that research angle of it where you just kind of to dig into something. I was an engineering student before I went to business school, and so there was always that little bit of just kind, kind of digging and figuring and solving problems that I really enjoyed.

Tyler Crowe [00:05:50]:

And, you know, kind of digging into financial statements is kind of scratches that itch a little bit, I guess, if you will, and a little bit of the treasure hunt that can be involved in finding an incredible company and an incredible investment that you can ride for a long time and kind of that, that feeling that you did it yourself to find it is immensely satisfying.

Dave [00:06:14]:

Yeah, I find it immensely satisfying. And it's, to me, it's just an analyst curiosity to figure out out how businesses work, how they make money, and think about the myriad of different ways that you can make money. You were talking about drainage systems. I mean, that's not something that most people think about, but it's a business that a lot of people do, and it's a necessary business, right?

Tyler Crowe [00:06:33]:

Yeah, it's, it clusters in this group of businesses. I think Peter lynch called them gross businesses, where it's like that stuff nobody wants to do. But the returns are good enough, though. If somebody wants to roll up their sleeves and do it, you're probably going to do pretty good. And there's a lot of companies out there like that that, you know, maybe they're extruding brass and copper pipe or they're making medical products that specialize for the gynecology ward, but nobody wants to talk about it because, ew, women's health and it's things like that that it's like, you know, they're out there and they're these just wonderful gems of businesses that, that are out there. And all of us as investors, we can go find them. Like everything that I have done more or less in my experience of doing this is like SEC filings. Those are free Yahoo finance.

Tyler Crowe [00:07:20]:

That's pretty free investor presentations. There's not a lot of like, you know, I have to go out and buy a Bloomberg terminal to do a lot of the things that we do, right?

Dave [00:07:29]:

Yeah, exactly. You don't have to spend, was it $29,000 a month to get the information you need to make decisions?

Tyler Crowe [00:07:38]:

Yeah, exactly.

Dave [00:07:39]:

So I'm curious, you went through 7500 companies, you found around 675 ish or so. Were there common characteristics that you were looking for or were those things that as you were doing this, I guess research, were the things that just started to jump out at you that you've been able to find commonalities, if you will?

Tyler Crowe [00:08:00]:

Well, I think at first there weren't a lot of commonalities. Like I said, it was literally just type in ticker a, compare it to the S P 500 and see like which line was really up. And that was for just compiling that list of companies. That's how I started. And it's been like a working backwards from there. Like what were these immensely successful companies and what have they done? And for a lot of these, it was my first touch with them. And a lot of the writing that I have done on these companies has been kind of a reflection on trying to figure it out. But there have been a few commonalities and a lot of interesting, like use cases on both companies that have done extremely well and continue to.

Tyler Crowe [00:08:36]:

And then there's also like a lot of companies that I've found that have done extremely well but are kind of starting to go sideways. And it's been fun kind of figure out like what they did really well and what they did sideways and also just as much as the ones have done really well. But in terms of commonality, I would say there's a lot of the traits that we talk about today with economic moats or great management teams. Well incented. Management teams, definitely well, incented. And the structures of those incentives have for me something that I spend a lot of time thinking about where I think a lot of alpha comes from. But also there's this kind of, this common trend I find is for a lot of these companies that a lot of people would throw away because maybe revenue growth isnt great. Six, seven, 8%, a little bit of buybacks, youre probably getting earnings per share of like 1011 percent annual growth and returns on capital like ten to twelve range.

Tyler Crowe [00:09:36]:

Better than your cost of capital. But its one of those things where its a, it's good enough to make money for a really, really long time, but not enough money to attract a lot of capital and competition. You know, everyone else wants to chase the 20% returns and this isn't, I'm not talking about stocks, but specifically talking about like the business itself. It's kind of like this. You know, nobody else wants to play in my sandbox, so I get to play in it all by myself. And so there's a lot of, I find there's a lot of businesses that I have done looked at kind of fall into this range. A company I was just thinking about that come to mind immediately is UFP and industries. They are a sawmill company.

Tyler Crowe [00:10:14]:

And there's not a lot of companies out there that are going out and building new sawmills. They tend to be like a roll up of kind of family. Mom and pop run sawmills around most of the United States. And so you get a company like that, nobody else really wants to compete with them. And there's numerous businesses like that. I have found like a lot of roll up businesses, distributors, oh my God. I could wax poetically about, you know, electric distributors, h vac distributors. Those may be the perfect business if you were to ask me.

Tyler Crowe [00:10:45]:

But I think that's one of those commonalities is there's just a lot of great companies that don't engender a lot of competition because the returns aren't awesome, but good enough that a couple people can make a lot of money. And then on the management thing, one of the most common flaws at least I have found, versus the ones that have been immensely successful when you compare one or the two, is when management has their incentives structured in a way that they do three things. They offer growth, they offer protection of per share value. So that can either be grow earnings per share or free cash flow per share or book value. But anything that just kind of guardrails that per share value of your investor. And then the last one is just like some hurdle rate of returns, right. I think a lot of what ends up happening is, I have found, is there are so many businesses where they are overexposed to that growth part, where its like grow revenue or grow operating income or something like that. A lot of people can do that because I can just go out and acquire a bunch of companies, and my cost, capital be damned, ill just get really big and be an empire builder.

Tyler Crowe [00:11:58]:

Very rarely does a company like that make are do really well for their shareholders because they have kind of incinerated their cost of capital to make this number really, really big. And sure, it grows their paycheck, and that’s going to be the thing that they’re going to do more than anything else is grow their paycheck and their bonus check. But if you can see a structure that incorporates those extra things of either some sort of barrier to per share growth or something along the lines of returns, has been a common trait of companies that have done incredibly well.

Dave [00:12:33]:

So where would investors find this kind of information? And are there any things like, are there red flags or are there green flags to look for when you’re thinking about this idea? Because this isn’t talked about enough.

Tyler Crowe [00:12:47]:

So where to find them? This is in the proxy statement. Basically, if you go into and look through the section of executive compensation, it’ll tell you how management is compensated, typically with, you know, their base salary and then some sort of annualized cash bonus and then their long term incentive plan, which is normally like stock options based on time served as well as a kind of a performance stock options sort of grant into there as well. And normally what they’ll do is they’ll tell you, like, how they achieve those things. Some companies better than others, they will tell you, and it will have some component, typically like, you know, we have a revenue target that’s 20% above where we were or something like that. Or, you know, our free cash flow has to be, you know, 7% higher than it was the prior year or something like that. And those will all be built into their compensation, their bonus checks. Right. And so you can kind of look through that and it gives you an idea of how management is incented to, you know, what they need to do to the business to get their paycheck.

Tyler Crowe [00:13:50]:

And if those things don't necessarily align up with the best interests of the investors, more often than not, the investors may not necessarily turn out great.

Dave [00:13:59]:

Yeah, for sure. My favorite is when people are being judged on, like, adjusted EBITDA and things of that nature, that, that always just.

Tyler Crowe [00:14:08]:

Kind of turns me cold anytime I see something like revenue growth or adjusted EBITDA. And it's not, like I said, it's not guardrailed by something else. That's just giving management a blank check to do whatever they want with your shares. And I actually have, there's a great example I gave, it was one of the earlier companies I wrote about, companies called Ball camp. And basically they were kind of a food processing company. They were the ones that discovered like, they called it micro encapsulation, basically, like, you know how you have liquid gel caps for medicine? They were the ones who more or less invented this and they kind of were able to use it for proteins and other. And basically it's like a microcoding vitamins and minerals with lipids or a lipid coating which allows us to ingest it. And it was a fantastic business, made a ton of money.

Tyler Crowe [00:14:54]:

And then what ended up happening? Like, you could literally watch in the proxy statements over the years, like how managements compensation changed and you could almost predict to the date when they were going to start making acquisitions because it was like immediately, once they took off those per share guardrails, it was like, we need you to grow operating income. Theyre like, great, im just going to go start buying stuff. And all of a sudden they went on this buying spree and they have just eviscerated their returns in the process. So to me, yeah, if management doesnt have that like kind of that narrow focus and I don't know, I don't know why more companies don't do it, right? Like, I don't know, maybe boards aren't tough enough on their own management or something like that. But it's almost like you can see it happening in real time. Like all of the companies that do these things do incredibly well, but not all companies are held to it. It's probably a good reason why we should all be voting when we own these things. Because if you let your company just, you know, if you let management go do their own thing, theyre probably going to do something that may not necessarily do what you want them to do.

Dave [00:15:58]:

Yeah, exactly. What is Charlie Munger famous for saying? Show me the incentive and ill show you the result.

Tyler Crowe [00:16:03]:

Yeah, I mean, I think theres a lot of talk, we always talk about economic modes and business competition, stuff like that. Its like, man, I feel like I can get way, way more out of reading the proxy statement than I can from the actual ten k to the point where now I will actually open up the proxy statement before I open up the financials because like it's almost like a, just a flag for me. It's like what am I getting out of this company? Or what am I getting out of management? Because I've used this a couple times in the blog, it's like I can have the sharpest axe in the world. But if I got a three fingered axeman swinging it any can do anything, right?

Dave [00:16:38]:

I like that analogy. That's good. That's good. I was recently, I was reading through Blackstone. I think it's Blackstone. I mix Blackrock and Blackstone up all the time, so forgive me if I'm wrong.

Tyler Crowe [00:16:49]:

I got the wrong one or the real estate one.

Dave [00:16:51]:

It's a real estate one.

Tyler Crowe [00:16:53]:

Blackstone.

Dave [00:16:54]:

Okay, Blackstone. All right, thank you. I was recently reading through their proxy, and I noticed that the CEO and owner, where you fink, I think, is his name, he is also the, he's the only person that gets to vote on the compensation for management. So that was, to me, like, I'm out. I'm done. I'm done here, you know, especially when I saw what he was paying himself was, yeah, no, this is not good.

Tyler Crowe [00:17:19]:

You know, it's interesting, too, because talking about executive management, there's this other extra niche, and we'll call it the perfect corporate culture, if you will. And I found, like four or five companies that have done this so far, where it's not just management that gets compensated for performance with equity and cash grants and stuff like that. It's everyone on the floor, everyone in the business and companies that have this alignment. The four or five that ive come across that have had this have been incredible wealth creators over time. The first one that comes to mind, I think people have know it is Nucor, the steel company. So probably the best well known example of. But ive also seen it with Expediters International of Washington. Theyre a freight forwarding company, like I said, UFP, the sawmill company.

Tyler Crowe [00:18:06]:

And the last one, actually two more. The last ones I saw were Watsco, theyre the distributor. And Evi Industries, its a really, really small distributor of laundry equipment. So, like commercial laundry equipment distributor. Its like $200 million company, but great wealth creator.

Dave [00:18:22]:

Thats awesome. So got a whole bunch of questions floating through my head here. So, number one, if you had to, I guess, assign what you think is better compensation, do you feel like its a higher salary or do you feel like stock options depending on better or worse? I know it depends, but I'm just curious what your take is on that.

Tyler Crowe [00:18:43]:

I don't feel too, too strong one way or another. I think the pay for performance is good because it allows the board of directors and I guess by default, the shareholders, we can hold their feet to the fire a little bit more. Sometimes I wish that boards would be a little bit stronger with this. Like, for example, if you have a management team that hits 150% to 200% of their bonus targets every year for ten years straight. That may not necessarily be a sign of great management. That may be a sign of a weak board that just hands out participation trophies in forms of $10 million bonus checks. But I think large incentive compensation packages are fine. What I would like to see more of is more actual management ownership.

Tyler Crowe [00:19:28]:

It's kind of like a little trickery that they put in their proxy statements where its this weird alignment. So its like we want our managers to be involved and have skin in the game, right? So our CEO is going to have five times his base salary. He has to own it in stock. Its like. Yeah but you just told me higher up in your proxy statement that 90% of his compensation is variable cash bonuses. So like what, less than one year of total years like compensation is that. I dont know, its kind of those weird dynamics where its like it sounds great on the surface but when you start to like actually look at it, you go yeah, thats not really that.

Dave [00:20:09]:

So what are your thoughts on. I generally invest in the, I guess not large cap, but I guess more mid to large cap space. And it sounds like you invest more in the smaller cap space, if you will. How do you judge the incentive and alignment in kind of those, do you think it's more important and bigger or more important and smaller or equally as important?

Tyler Crowe [00:20:31]:

I think it, it might depend on more or less the complexity of the business. I guess like if for, I don't know, I'm trying to think of harder businesses to run. I think banks probably are much, much harder to run because it's an industry that's like basically pulling you to do the riskier thing all the time because you're rewarded with it with higher net margins, higher stock prices and all that stuff. And so it's like an attempt to make you want to do more, but at the same time that's exactly how banks blow up. So I don't know if it's one is more important than the other. Like how much value is Coca Cola's CEO bringing to the table? Right. I mean it's an extremely well established brand. They really have their marketing playbook pretty down pretty well.

Tyler Crowe [00:21:18]:

Like it's one of those things where yeah, I'm sure that he's paid incredibly well and they're pay for performance, but like what kind of value is somebody like the CEO of Coca Cola really adding to the business? But at the same time at a business that large, like what's the difference if he's making five or $6 million because it's, it's a rounding error for the business. Smaller companies, obviously management is going to have a higher touch with everybody involved and, you know, probably a little bit more of a setter of corporate culture, but at the same time, they can't pay as much because they're considerably smaller companies. So I don't know. I guess it's really on a case by case basis and it's one of those things. It's like, look, if I'm a shareholder in this company and you are creating wealth for me for 20 straight years and doing it at a better than market rate, absolutely. I have no problem with paying that person a very generous salary. But Orlando, total compensation, I guess based on the proxy. But I think theres a lot of times where management is just, I dont know, wall dressing more than anything else.

Tyler Crowe [00:22:25]:

And no, those people shouldnt be compensated in the right way.

Dave [00:22:29]:

Right. I agree. Visa is a company that ive owned for many years and im a big fan of. But honestly, I dont know how much value the CEO of Visa drives compared to somebody like Warren Buffett. I mean, I just don't feel like there's a lot of, I'm not saying that they're not doing a good job or anything of that nature. Just are they really worth $35 million? I don't know.

Tyler Crowe [00:22:55]:

You could even go with that too, with a lot of like underperforming businesses too. Like let's look at the automotive industry. How much do the CEO's of automotive industry companies need to make to very much underperform the market over very long periods? Like great, you made 3% annually for 20 years. I could just stick, I can make treasuries better than that. And here's $50 million, right?

Dave [00:23:21]:

Yeah, exactly. Well, a company that I have owned, Intel, I am getting therapy about that, by the way. But that's a perfect example of a CEO that wanted, I don't know, Pat Gelsinger wanted $90 million or something crazy like that. When they're, you know, their stock is vastly underperforming, their revenue growth is negative. But the people before him kind of set up those systems and they are the ones that really dropped the ball. So yeah, it can be kind of a crazy world for sure.

Tyler Crowe [00:23:50]:

Yeah. And in situations like that, maybe at least when you think of like turnaround company stores, too, it's like, yeah, we'll throw you a really bad big bag of money, but probably tie it to like long term incentive compensation. It's like, look, if you can turn this around, we will pay you a big pile of money, but you actually have to show it. We're not going to give you $30 million right off the bat.

Dave [00:24:12]:

Right. This is a question that's kind of coming from me. So I'm interested in learning more about smaller companies and nanocaps and micro caps and all that fun stuff. Part of my struggle, if you will, is coming from the large cap world or bigger companies. I don't feel like I can get the same kind of information that I can with the bigger companies because a lot of them don't have earnings calls, for example. And so I know that I can pick up the phone and maybe talk to the CEO, but I wouldn't even know what to ask the person. So how do you go about researching those kinds of companies versus somebody like a Google, which is widely available information?

Tyler Crowe [00:24:50]:

I think I really just default to. You can learn so much from the annual disclosures, whether it be the ten k, whether it be the proxy statement, whether it be kind of maybe watch how much buying and selling is going on by the insiders, how much stock ownership, things like that. Where you're right, it's maybe a little bit harder to understand industry dynamics. But there's also a lot of very simple businesses down here. And so, like I said, being a distributor of H Vac equipment, it's not exactly rocket science. Right. There's certainly a lot of businesses that I've run into down in the smaller captain industry where it does fall into the too hard pile a lot. And I think part of doing small cap companies a lot is high turnover of ideas, where it's like you're sifting through the laundry really fast to find the clean shirt that's available in there because there's so many opportunities.

Tyler Crowe [00:25:47]:

But with so many, there's probably a lot that are not great, probably a lot that are duds. And so what I think what ends up happening is when you start going into smaller companies, you find the simple businesses that are easy to understand and really wait for the pitch that you want to swing at. Because if you don't feel comfortable with it, it's just as easy to kind of move on to the next one. And I don't necessarily know if a lack of information is a bad reason to get involved with these companies sometimes that it can also be an advantage because number one, not a lot of people are talking about it. So theres probably a greater opportunity for missed priced assets, stocks selling for a lot cheaper than whatever triple digit P E ratio. Some of the mega caps are trading for these days. So you can find some mispriced opportunities that if youre willing to sit on them for a long time and let the earnings power do all the heavy lifting for you, its probably likely going to do quite well. And I think theres been plenty of examples to me of companies that don't do a lot in terms of messaging to shareholders or anything like that, that have done extremely well.

Tyler Crowe [00:26:57]:

And so once you're kind of, you've seen that enough, you can get comfortable with the idea of, yeah, I don't need to know everything. A great example, I haven't written about this one before, but there's a home builder company called NBR and they don't do anything they don't like, even give a paragraph of management comments on their like press release statements of their earnings. It's basically like just numbers and that's it. They don't do conference calls. I will give you $100 if you can find a picture of one of their executives on the Internet. There is a decent chance that this company was actually replaced by AI 15 years ago. And it's just like they kind of run the website on the side. This might be the first Borg investment that we actually have on the software today.

Tyler Crowe [00:27:43]:

So when you see a company like that, and I know this is a podcast, so there's not a lot of like visual enhancements, but just go to like whatever your charting website that you of choice go look up NVR's long term returns and go, oh yeah, look at that. And you know, it's home building. It's a relative. Yes, it's a cyclical industry, but it's a pretty simple industry and they've been incredibly good at it. And if you can bear with the fact that they're not going to tell you anything, you're still going to do pretty well once you kind of do it enough. And you can see like, yeah, we don't spend a lot of time trying to make our case to investors. We just do our jobs. It comes almost like an endearing quality.

Tyler Crowe [00:28:22]:

It's like that thing where every once in a while you come across a company that's got an investor relations page that looks like Berkshire Hathaway and you're like, oh yeah, I'm onto something here.

Dave [00:28:31]:

Yeah, you can look at it two ways, right? One is that they're not spending any money on investor relations, so they can use it for other things. And b, you know, to your point, they're just doing what they do, and they just. Just let people figure it out for themselves. Yeah, I love that example of NVR, and I also love the Borg reference, so thank you for the Star Trek fans. That's awesome. So, I guess, how do you think about investing in smaller caps versus larger companies, as far as, like, the volatility? I guess that's another thing that makes me a little, I guess, nervous about it, and. And maybe that's just ignorance on my.

Tyler Crowe [00:29:06]:

Part, which I will freely admit, to be honest. I know this is going to sound bad, but I don't care about volatility. I really don't. I'm sorry. Look, I cut my teeth on oil and gas, investing in the. Watched everything drop 70%. I got my face kicked in so many times trying to invest in oil and gas. I don't know, I'm almost numb to it now.

Tyler Crowe [00:29:24]:

I'm like the. I'm just like the plow horse. It's like you can whip me as much as you want. It doesn't bother me anymore. I think for a lot of people, that can just end up being. The thing eventually is you do this long enough, and you get your teeth kicked in once or twice, and you get used to it, and all of a sudden, a drop of 50%. Yeah, you can maybe be a little, like, miffed that you probably bought it in an overvalued situation, but if you still think you've done the research on a quality company, then it may not necessarily bother you. An example of a company that I have recently invested in on this is hexatronic group.

Tyler Crowe [00:30:01]:

They are. They trade on the Stockholm exchange, actually. Basically, they're everything when they involve fiber networking. So they build harsh environment cables. So, like, the undersea cables for fiber, they do a lot of, like, long cables for fiber for the home, as well as they're kind of. Their big thing right now is basically fiber for data centers and kind of a lot of that, like, you know, communication piping, I guess you will, for data centers, because they're trying to really reduce latency. And at one time, it was, for the past ten years, it was the best performing stocks in the world, perhaps got a little over ambitious because, you know, as interest rates rose and kind of this. The rural fiber build out in the United States has been considerably slower than expected, perhaps bought at a little overvalued time, which, you know, my position is down, like 40%, like, but at the same time, there's still so many green shoots available that I look at and be like, yeah, 40% that's a real bummer.

Tyler Crowe [00:30:51]:

But there's still a lot of tailwinds or that I'm seeing with this business that I'm perfectly okay with sitting on this for another seven to ten years.

Dave [00:30:59]:

That's awesome. That sounds like an awesome opportunity. And that kind of leads me to thinking about everybody's talking about AI and cloud, and that's been very, very popular. But what are your thoughts about investing in, I guess, companies that are, I hate the picks and shovels, feels like it's overused, but maybe kind of downstream from the Nvidias of the world. What are your thoughts on trying to find those kind of opportunities?

Tyler Crowe [00:31:23]:

I've struggled. I found a couple. It's one of those things where it's like, I try to meet the opportunity in the areas that I know it. And like, for example, something that I've really looked into a lot when it comes to data centers and kind of the AI boom and call it the picks and shovels, is I've been looking at electrical contractors, like the actual people that are going to build the data centers, that are going to maintain the data centers for years and years and years to come. Because the funny things about, like, electrical contracting is, let's like say you hire an electrical contractor to build out your data center. Well, then you're probably also going to, he's going to be on call whenever anything breaks. So, for example, like Quanta Services, M Core group, they're both electrical contractors, which are to me, some of the like, really behind the scenes picks and shovels that interest me because I am arguably one of the most tech incompetent people you've actually ever met. Like, to the point where I've tried tech once or twice in my life and I have failed miserably, and to the point where it's like, maybe this just isnt for me.

Tyler Crowe [00:32:27]:

Like I said, ive lived outside the United States for eight years now in places where, I dont know, half the time I was running a diesel generator just so I could power my house. Not exactly the hubs of high tech. And I naturally drifted to other things. And so when it comes to these trend opportunities, especially when it comes in tech and things like that, ive normally kind of sat them out just because I didn't know what I was doing. And there's one thing when you lose money on businesses, you know, and you identify the risks, and like, when it goes down based on the risks that you identified and like why that may not be the worst thing in the world, you're like, yep, I saw it. I didn't quite, you know, it didn't do my math well enough, I guess. But if you just kind of like go into trends and you don't really know what it is, nothing makes you feel more like an idiot when you do wrong in those ones. Right? And so I'm very much one of those kind of, well, stick to your knitting because at least when you do it wrong, you know why you did it wrong.

Tyler Crowe [00:33:27]:

And I guess it, I don't know, makes, it doesn't feel quite as bad, I guess, if you will. But, and at the same time, I think kind of as you've seen with, if you kind of go back through the history of the things that I've written about, there are so many opportunities in just good businesses that do the most boring things in the world that you don't have to chase amazing trends. Yeah, sure. I'm, for all the people that have made 3400% on their Nvidia over the past like couple of years, I'm extremely happy for you. I don't hold any ill will for people that have made a lot of money from these things. But for people who are getting involved in this, you dont have to go there. Like, theres so many other places that you can go and so many other like, realms of investing that theres probably some industry that youre in that there is a killer company that is publicly traded and is absolutely knocking out of the park and you as that individual can have that inside information of like, oh yeah, that company is junk. This one does awesome.

Tyler Crowe [00:34:29]:

This one's young, but it's really upcoming and you can use that information to your advantage in some of the more like niche unspoken about parts of the publicly traded market. And as a result, like sometimes you can just find great stuff because right now, because so much money is going into these big tech trends and all this stuff, there is a lot of mispriced, in my opinion, things that we consider small caps. But what's a small cap anymore? Like the biggest things are $2 trillion. Is 20 billion a small cap 40 billion?

Dave [00:35:05]:

No, no, it's not. So how do you think about this idea of staying within your knitting, as you put it? Like, how does one kind of figure out what their knitting is and how do they try to stay within that?

Tyler Crowe [00:35:18]:

I think it's good to like, because I guess I'm a little contradictory to this because if you look at my writing, I do bounce around a lot from different ideas. Like I've written about healthcare company and building suppliers and things like that, which, you know, may not necessarily be where I really got my start, but when you get your start, you can really, like, establish yourself in knowing an industry relatively well and like, understand the players in it, the industry dynamics, whatever. You can kind of start to take those lessons that you learned and then just move on to the next industry. Right. And say, okay, I think I've got a pretty good handle. Like, for me, it's like, I think I got a pretty good handle on oil and gas, something relatively similar. So I kind of started looking at commodities mining and then what else do these have? Well, they're all very asset heavy cyclical industries. So what are a lot of asset heavy cyclical industries that I can learn? All of a sudden you start going into machinery and the John Deeres or the caterpillars of the world.

Tyler Crowe [00:36:16]:

All of a sudden it's kind of like, you know, the monkey swinging from tree to tree to tree because all of a sudden the branches have come a little bit closer and then before you know it, you can swing across the whole forest because you've been finding ways to connect, you know, your particular expertise in one sector and then use kind of the lessons from that to move into another ones. Which also is probably the other reason why I have never touched banks, because they're banks and they're nothing else is like bank.

Dave [00:36:42]:

No, it's very, it's very unique, for sure. What are your thoughts on electricity and kind of the generation of it? I feel like that's one of the things that with, again, the AI and cloud and ev vehicles and all that stuff here in the United States, it's a constant conversation. I just can't find anything that I feel like is worthwhile investing in a because I stayed away from commodities and oil, because that scares the bejesus out of me. I don't want to get my teeth kicked in. So I'm 57 and I don't want to go through that. So, yeah, I tried looking at all the different solar companies and renewables and all those things, and I just really couldn't find anything that would kind of feed my investment criteria. And so I've just kind of thrown my hands up and go, okay, I don't know what to do yet.

Tyler Crowe [00:37:26]:

Yeah. When it comes to electricity, especially renewables, I think this is one of those industries where it's a cyclical industry disguised as a growth industry, where everyone talks about, like, all my renewables are going to explode. All the investment that we're going to plow into it. But if you look over the past 1015 years, it's been an immensely cyclical industry, and it's kind of hard to wrap your mind around because demand for it has grown rather consistently, but the supply of it has kind of grown in stepwise functions, so that you'll see this huge push of a bunch of like factories coming online. They'll push out a whole bunch of panels all at once, and then all of a sudden the market's oversupplied, and then somebody goes bankrupt. All of a sudden, six years later, we're undersupplied again. Everybody's rushing to build new factories and things like that. So I think that's, that's where people don't see it as cyclical, because they're like, but the demand keeps going up.

Tyler Crowe [00:38:19]:

It's like, yes, but the supply isn't matching the demand. And that's why it's cyclical and probably why a lot of people have become immensely frustrated with renewables because of that and sensitivity to interest rates, especially for a lot of the things that are a little bit closer to residential. I have some investments. I think there's, like I said, you can find good companies in just about any sector, regardless of how good or bad that particular sector is. I can see why people would be so attracted to it, but its a very intense competitive market that takes a lot of capital to do it. The margins arent great. Just for an example, we talk about regulated utilities, right? Regulated utilities basically means that they have to go to a, some state regulator and says this is how much were going to spend so they can get their rates approved by the state to make a certain amount of profit. Well, typically a state regulator is going to say that you can make a 9% return on equity on that business.

Tyler Crowe [00:39:14]:

I dont know a lot of people that are running out the door to go get a 9% return on equity business, right? Like, sure, if you just want to collect a 4% dividend yield that grows 5% for 1015 years to supplement your income, fine. But youre not finding a lot of market beating performance out of something like that. And theres a lot of like that electricity area is this place where its fiercely capital, intense and fiercely competitive because everybodys trying to build out these things and then sell electricity at market rates, which is cheap and variable. So yeah, theres a lot of growth there, but whats growth on 1% margin? Its not a lot of growth, its not a lot of return. And so I can see why people would be wanted to do it. And I feel the absolute necessity to do it from a societal reasons or something like that. But its not something I feel like I absolutely have to rush into make money because theres a lot of other industries out there that just simply have better economics than energy and electricity on the whole. So unless you really want to dig in and go and really go, like searching for the gems, youre probably going to run into a lot of duds along the way.

Dave [00:40:27]:

Jeff and I did. And that phrase, thank you for the therapy, because that little phrase there where you said that theyre just not good economics and theyre just maybe not ever going to be great investments, that actually helps me sleep. That's going to help me sleep better at night because I haven't been able to find some of those things.

Tyler Crowe [00:40:44]:

I think there's a lot of industries like that where it's like, you don't have to invest in it. There's, you know, I guess, like, with me, with tech, like, I'm not good at tech. There's no rule that says I have to invest in tech, right? Like, sure, there's a lot of very good companies in tech, but I just don't understand them. And so as a result, like, like, again, I go back to the idea, like, I'd feel like a real idiot if I invest in something I don't know relatively well and get blown up because of it. So when you can find those things that you're comfortable with and can really search through and dig into it and really be interested in digging into it, too, because, you know, I don't really know how many, like, software as a service, cybersecurity companies I want to look at, but for me, yeah, I'll go, I'll go read about contract research organizations, kind of the sausage makers of the pharmaceutical industry. That's a fascinating thing.

Dave [00:41:36]:

Yes, it is. It is. And it's a growing industry, and it's a great place to look for potential ideas.

Tyler Crowe [00:41:43]:

Yeah. And so there's places like that where, you know, if you find something that really, really, like, kind of scratches that, you know, intellectual curiosity itch, sometimes that can be just almost as stimulating of, you know, finding good investment is like the research of doing something like that.

Dave [00:42:01]:

Yeah. I think the key phrase is you don't have to swing at every pitch. And I think, you know, you've been kind of saying that through our whole conversation, and I think that's it's a great way to think because it helps you avoid that whole FOMo thing, looking at other people, looking at other companies and thinking, well, what if? And it, you know, takes you off your, off your path and the way you want to invest. And I think people that bounce around from style to style to style to style, they're going to struggle for a while.

Tyler Crowe [00:42:27]:

Yeah. I mean, bouncing around, it's not necessarily a bad idea as long as you're willing to put the work into it. Right. And on the idea of it, you know, swing at the pitch that feels right. Like I said when we started this, if you go line by line, there's 7500 companies that are publicly traded. And if you know less than 10% of them have been market beaters over the past 1015 years, it tells you you're going to have to turn over a lot of stones to really find the things that are going to really do well for you over the long run.

Dave [00:42:59]:

Right. Exactly. That's what I love about your blog, Bisbid Alpha, is that's what you're doing for us.

Tyler Crowe [00:43:05]:

Yeah. And I think that's been the fun part is like I found the pile of stones, I did a lot of turning over. I was like, I think these are the good ones. And now it's like at maybe I get into one and it's done fantastically well over 25 years, but maybe over the past ten it's been lousy. Why is that? And starting to dig into a lot of the reasons why things can go wrong. And I think that can be very valuable for investors too, is seeing how companies that have done incredibly well have gone sideways. I think a lot of times we think about, I think the classic example everybody uses is the buggy whip, right? You dont want to be the best buggy whip manufacturer or look at an Eastman Kodak or something like that as the example of something that is, became toxic over time because it just didn't become relevant. But there's lots of other reasons why this happens.

Tyler Crowe [00:43:54]:

And one of the common threads, again, kind of going to the, as I look at these things, what are the things that start to connect together? Companies that try to do transformative merger and acquisitions tend to be the companies that end up going sideways. Because normally what happens is if you're making a very, very large m and a, you're not doing it a lot. And so youre trying to flex this muscle or this institutional muscle that youve never flexed before, and all of a sudden you think like, oh yeah, Im a $100 billion company. I can buy this $40 billion company, no problem, ill figure it out. And yeah, sure, you can still grow a little bit. But if you have spent that much capital to make something happen, it tends to make your returns look pretty crappy for quite a while until you figure things out. And so it's been one of the common causes for companies to go sideways over a long time. Even companies that were incredibly good.

Tyler Crowe [00:44:54]:

And I wrote quite a while ago, started seeing this with capital markets companies in the peg 03:03 or four years where everyone kind of said, hey, you know, who's more unbeatable than like, S and P Global and intercontinental exchange? Like, these are great business models, right? Like, well, what can go wrong? Well, you can spend $44 billion for one of your competitors and say that youre going to grow earnings per share by 15% and then its flat for two years after you do the deal. Things like that you all of a sudden start looking at. And that right there is a great example of how things can go wrong. Now, I dont know if over the long term thats going to cripple S and P Global, but if we look back ten years and it has gone sideways, Im pretty sure thats going to be the reason why.

Dave [00:45:38]:

Preston, you dont need to look any further than at and t and some of their acquisitions recently and how thats really crippled them.

Tyler Crowe [00:45:44]:

What eviscerated more capital than the telecom companies trying to become media companies? Like with at and t, with DirecTV, with whatever the heck Verizon's media strategy was. I don't even know. It was like, oh, we're going to buy AOL. Great. You bought a property that was ten years old when you bought it, right. So great examples of just like these kind of these tangential moves where you're like, oh, if we roll this in together and we can bundle it in some specific way and, you know, the kind of the mental gymnastics that you have to do to like make this deal make sense to me, that's like almost a red flag immediately. So let's throw that thing out the window. But it's interesting though, because, you know, this is the reason why I think, a lot of gone sideways.

Tyler Crowe [00:46:30]:

But at the same time, there is this, you know, companies that do like specialize in mergers and acquisitions, that like buy small companies, they roll up very fragmented industries. These can be some of the best wealth creators over the long term. Like blow your mind kind of returns on boring businesses like insurance brokers that all of a sudden have 50,000% returns over 30 years.

Dave [00:46:55]:

Yeah, brown and brown. It springs to mind with that. And Arthur.

Tyler Crowe [00:46:59]:

Jake Allagar, baby.

Dave [00:47:00]:

Yep, yep. All those companies. Yeah, they've done fantastic work, haven't they?

Tyler Crowe [00:47:04]:

Yeah, it's one of those industries where it's like, no, there's a few per grade industries out there. I feel like insurance brokers really are one of them, because, like, there's the idea of, like, chasing trends, but then there's the idea of chasing for everything. When are we going to stop needing insurance?

Dave [00:47:20]:

Never.

Tyler Crowe [00:47:21]:

There's certain, like, durable industries, like insurance or, I don't know, hot water heaters, things like that, where you kind of. You live in these worlds, wherever, where it's almost an unbreakable industry, and you can find incredible returns in them, especially, like I said, ones that are very fragmented, because, I don't know, they started off with some mom and pop, you know, 20 years ago, and then all of a sudden they started buying everybody else. It's a weird dichotomy when it comes to mergers and acquisitions, because this very, very rarely do you have, like, the. Yeah, we bought something big and we did pretty well. It's always like, we bought something big. It stunk for us over the long term. We bought a whole bunch of little stuff over, like, 30 years, and it was the best decision we ever made.

Dave [00:48:03]:

Yeah, that's so true. I'm big in the payment space. It's like my jam, if you will. And global payment networks, GPN and Fidelity national Services, FIS, they went on this big buying spree and bought these payments processors, and I spent 30, 40 billion on these things. And their returns have been, you know, negative compared to the s and P, they've been negative. And then compared to the s and P, they've been really, really bad. And now they're ended up both spinning those off after spending 30, 40 billion for pennies on a dollar. And it's just been incinerating cash.

Dave [00:48:39]:

And it just. And I owned fis, who did the same thing. But they've actually been successful in their acquisition. And so it's just. It's even more stark when I look at those other companies.

Tyler Crowe [00:48:50]:

Yeah. I don't know how much people just want to listen to us hate on mergers and acquisitions for a long time. I don't know what kind of radio that makes, but I could definitely be here for quite a while. But it just goes to show it's something that I feel like it gets a lot of immediate attention and can put you in the spotlight, and every once in a while, you'll see a lot of big pops because of mergers and acquisitions, and everybody's talking about your company, but it so rarely actually does anything for you over the long term and ultimately probably destroys value. That, to me, its almost like you have to be very cautious. If you actually have a company that is making a large acquisition, you should immediately start looking at it. Okay, whats going on here? Theres also a good chance that if its doing it, it probably has bad management incentives going back to what we were talking about, too. So its a very fascinating topic.

Tyler Crowe [00:49:42]:

And a lot of the companies that ive covered touch on m and a in some way or another. So I feel like it's always like a thought exercise on why it worked, why it didn't, or what, something in between.

Dave [00:49:54]:

Yeah, for sure. So I guess maybe to end on a happier note, if you had to throw out maybe two or three business models, if you will, that you think are some of the better businesses, you kind of mentioned one of them earlier. I wondered if there's maybe a few of them. You don't need to mention names, but maybe just the business models themselves that you think are attractive just across different industries.

Tyler Crowe [00:50:17]:

Sure. Well, I'll go on one that I just recently wrote about. And it's an incredible industry. It's called contract research organizations. So if you're a pharmaceutical company and, you know, you found these really interesting molecules basically for a treatment of a drug or something like that, there's a lot of companies maybe not necessarily have all the in house capacity to do any actual clinical research yourselves because, you know, one of the hardest things of clinical research these days is knowing where to find patients and how to find them. And so theres this whole cottage industry that has been built up from companies that started out be like, oh, yeah, you want to just farm out your mass spectrometer work to us to do something like that. They all kind of cobbled all of these different functions of clinical trials together into these basically contract organizations that will more or less handle the entire clinical trial pipeline for a pharmaceutical company, whether it be the giant ones that maybe theyve got their couple that they work on on their own, and then theyve got the other ones. Well, we can outsource these, or youve got startup biotechs that dont have the money to plow all the capex into a lab, and so they can make it all a variable cash opex and just hire out a contract manufacturer.

Tyler Crowe [00:51:33]:

Theres probably a half dozen of these companies that have just done splendidly for investors because people keep getting sick. And theres a select few very large pocketed companies that want to farm this stuff out to them, and they want to spread it around enough that one company doesnt become too, too strong and have too much pricing power. You have all these companies that are doing relatively well without it being one thats just monumentally better than the other. So I think contract research organizations, its really an interesting place for people to look at. Like I said, insurance too. Im trying to think of some of the other places and distributors. If I could only invest in three types of businesses, it would be those contract research organizations, insurance brokers and distributors.

Dave [00:52:21]:

My last question, what about distributors do you like so much? Because you mentioned that a few times.

Tyler Crowe [00:52:25]:

Today, a well run distributor doesnt take a lot of capital to run, at least like youve got a couple of warehouses or something like that. These people are basically just really good inventory managers. Things like they can get things out to their customers when they need them and they can get five, six, 7% return on all margin when theyre doing it. And turnover is so high on your assets that you can generate incredible returns. A lot of these companies, once you manage your inventory really well, which is managing your working capital really well, you tend to throw off a lot of free cash flow. And as a result, a lot of these companies end up becoming serial share cannibalizers who are buying back loads of stock. You never see anybody pay huge dividends, but thats fine if youre just growing your per share value like that by maybe six, 7% net income growth every year. But you're buying back three 4% of your shares every year.

Tyler Crowe [00:53:22]:

On top of that, all of a sudden you're looking at seven to 10% growth in businesses that tend to stick around for really, really long time because, you know, even through the construction cycle, h vac systems break when you need that part right away, boom, you got your distributor right there. And so, you know, if you find distributors for h, like I said, h vac industrial machinery, especially in like those critical functions where it's like you that part right away to keep your business up and running, people will pay a pretty hefty price and will actually be willing to go to your distributor pretty quick. And so it tends to not be one where its like youre going to bid out to find the cheapest one. Youre going to call up the distributor and whoever has it at the moment is going to be the one that gets the business.

Dave [00:54:09]:

Thats awesome. I agree with you. Those are fantastic businesses and Im lucky enough to own one of them, so Im happy. Tyler, this has been an amazing conversation. It's been a lot of fun for me. And I know our listeners are going to get a lot out of this. Where could people find you online? Where. Where could they learn more about you and what you got going on?

Tyler Crowe [00:54:26]:

Sure. Well, I pretty much exclusively write for misfit alpha.com dot. Actually, I've set up a code, or if you want, and we can put it in the podcast description. Listeners of this can use the code to get 25% off or my newsletter, misfit alpha.com beginners. And I'm really not a social media person. I'm kind of a. I'm kind of a voyeuristic social media person. I don't post an awful lot.

Tyler Crowe [00:54:51]:

I feel like I don't have a lot of important things to say on social media, so. Which obviously makes it pretty bad to have a stock newsletter. I don't really have a good top of the funnel, which is great. When. And I thank you for bringing me on the podcast because being a podcast guest is kind of my favorite way of really bringing people to my work. So. And tends to be a very qualified audience. I mean, if you listen to us drag on for an hour, you probably want to read some of my stuff, too, right? So, yeah, I would say, yeah, misfit alpha.com, like I said, slash beginners, it's a code for listeners of this podcast.

Tyler Crowe [00:55:23]:

And I think that's about it, really. Okay, I'll take that back. Because actually, members of Misfit Alpha, I have a discord server. And so we do live chat on the discord server about basically chopping it up about stocks. It's been a pretty quiet place where I'm a pretty quiet shop that I don't have a lot of subscribers yet, but hopefully it's something we can build into a nice investor community over time.

Dave [00:55:47]:

Oh, that'd be awesome. Yeah, that's awesome. That's one of the things that I love about investing. Unfortunately, it becomes a soul. It can become a solo sport. But when you can find a place that you can talk with other like minded people and pick ideas and. And brainstorm, I think it's super, super helpful.

Tyler Crowe [00:56:02]:

Yeah.

Dave [00:56:03]:

Yeah.

Tyler Crowe [00:56:04]:

Awesome.

Dave [00:56:04]:

Well, Tyler, thank you very much for your time today. This was awesome. And yes, I will put all that in the show notes so people can find you. And they need to. They need to take a look because it's definitely worth worth checking out. I've enjoyed it, and I've learned a lot from you, not only from today, but from your writing as well.

Tyler Crowe [00:56:20]:

Thanks.

Dave [00:56:20]:

You're welcome. All right, well, with that, everyone, I'll 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, and we'll talk to you all next week. Bye.

We hope you enjoyed this content. Seven steps to understanding the stock market shows you precisely how to break down the numbers in an engaging and readable way with real-life examples. Get access today@stockmarketpdf.com until next time have a prosperous day. The information contained just for general information and educational purposes. Only it is not intended as a substitute for legal, commercial, and or financial advice from a licensed professional review, our full disclaimer@einvestingforbeginners.com.