



Invaluable Insights Webcast

Thursday, January 7, 2021

M = Moderator, JD = Jennifer DiGrazia, MH = Mellody Hobson, RB = Rupal Bhansali, SC = Staley Cates, MG = Mario Gabelli, DH = David Herro, BM = Bill Miller, DO = Daniel O'Keefe, JR = John Rogers

00:00:01

M: Welcome to the Invaluable Insights Webcast. You may submit online questions at any time today using the window below the speaker screen on the webcast. Please note this event is being recorded. I would now like to turn the discussion over to Ariel Investments Head of Institutional Client and Investor Relations, Jennifer DiGrazia.

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JD: Thank you, all, for taking the time to join us this afternoon. Prior to beginning the discussion today, I must read the following disclosures. Equity investments are affected by market conditions. The intrinsic value of the stocks in which value portfolios invest may never be recognized by the broader market. The opinions expressed are current as of January 7, 2021, but are subject to change.

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It is now my pleasure to introduce the moderator of Invaluable Insights, Ariel Investments' Co-CEO and President, Mellody Hobson.

00:01:26 MH: Last May we brought together some of the most successful value investors in the country to discuss how they were managing their portfolios during the pandemic. Individuals in the group have overseen portfolios for decades. The average tenure is 34 years. Collectively, they manage over \$300 billion. These value greats have some striking similarities. They are not afraid to stand alone.

00:01:51 In addition to their high active shares, they also tend to have relative concentrated portfolios. That said, each of these respected peers has their own unique approach to investing. In many ways, our common search for value is like a music genre. Our individual portfolios are like our own songs.

00:02:10 During the time of great uncertainty, we had a far-reaching and thoughtful conversation about what these practitioners were seeing, thinking, and doing. When we spoke on March 12, 2020, the Dow closed at 23,764. Yesterday, it closed just over 30,000, up 29%. After this tremendous market move, we are reengaging to discuss where we are now and what lies ahead.

00:02:37 I'm joined by Rupal Bhansali from Ariel Investments, Staley Cates of Southeastern Asset Management, Mario Gabelli of GAMCO Investors, David Herro of Harris Associations, Bill Miller from Miller Value Partners, Daniel O'Keefe from Artisan Partners, and John Rogers of Ariel. I listed a few of their accomplishments last time around. I think they're so remarkable they bear repeating. Five of these managers,

Staley, Mario, David, Bill and Dan, have received Morningstar's Fund Manager of the Year designation. David and Dan are two time winners, and if that's not impressive enough, David and Bill both have Fund Manager of the Decade designations. Rupal and Mario are both members of the prestigious Barron's Roundtable. Mario and John are both listed in the book, *The World's 99 Greatest Investors*.

00:03:31 For the next 90 minutes, I will moderate a discussion that seeks to emulate a conversation we might have had over a dinner if we were not socially distancing. This conversation is unscripted and hopefully will also be unfiltered. The managers are encouraged to question each other and to challenge each other. They do not know what I will be asking.

00:03:51 Our initial discussion will last for 60 minutes. I will include some of your questions that were sent in advance. For the last 30 minutes, I will open up the conversation to live questions that must be sent in written form through the chat window. My colleague, Jen DiGrazia, will select and read those questions at the appropriate time. And as moderator, I may take the liberty of asking some follow-up questions.

00:04:17 Since we have a big group here and so much to discuss, I will encourage brevity and gently or not so gently prod my pals if they start to get too long winded. In terms of the conversation, I plan to go from the macro to the micro, first discussing big picture economic issues, then industries, then stocks, with some personal questions along the way. Last time, we used a speed round the set the stage for our

conversation. To kick things off, I want to revisit the things that were said and add a few new questions. These are yes or no or multiple choice questions. No editorializing here. This line of questioning will help show where there's agreement and where there is dissent, so here we go.

00:05:01 I want to start with our speed round from before. And the first question was, will the U.S. recovery look like an L, a U, a V, a W or the Nike swoosh? That one was thrown in for John. And this is where you all came out. So three of you, David, Rupal and Dan, said it was going to be a U. Two of you were all about the swoosh. That was Bill and Staley. One of you was in favor of the W. That was Mario. And last but not least, John was pushing the V. So I want to follow-up. From where we were to where we are now, where do you think we are in this recovery? And if you had to go back to those same letters, the L, U, V, W or the Nike swoosh, what would you select? And I'm going to go initially, the first round, in alphabetical order. So I'll first start with Rupal. Rupal, where would you be?

00:06:05 RB: Swoosh.

00:06:07 MH: Staley.

00:06:09 SC: Swoosh has turned into a W.

00:06:13 MH: Mario.

00:06:14 MG: The W with a long tail swish. No change, and that's U.S. economy.

00:06:22 MH: David.

00:06:23 DH: Swoosh, swoosh and picking up steam.

00:06:26 MH: Bill.

00:06:27 BM: V.

00:06:30 MH: Dan.

00:06:31 DO: Not sure what letter to choose. I'm just gonna say it's gonna go up a lot from here.

00:06:36 MH: That's editorializing. John.

00:06:39 JR: I'm still a V.

00:06:40 MH: Okay. I asked, would the U.S. see negative interest rates? Now, I know that wasn't very long ago. The question was yes or no. All of you were no except Rupal.

Has anyone change their mind? Do they now think we'll see negative rates? And
Rupal, do you change your mind? So I'll start with John. Will we see negative rates?

00:07:02 JR: No, not changing.

00:07:03 MH: Mario.

00:07:04 MG: No.

00:07:05 MH: Dan.

00:07:06 DO: No.

00:07:07 MH: David.

00:07:08 DH: No.

00:07:09 MH: Staley.

00:07:10 SC: No.

00:07:11 MH: Bill.

00:07:12 BM: No.

00:07:13 MH: Rupal.

00:07:14 RB: I changed my response to no.

00:07:17 MH: Okay. S&P 500 or MSCI index, which will outperform the next three years?
Bill, Dan, Mario and John said the S&P 500. David, Rupal and Staley said the MSCI.
Does anyone change their answer? John.

00:07:33 JR: No.

00:07:34 MH: Mario.

00:07:35 MG: Yes, MSCI.

00:07:38 MH: David.

00:07:40 DH: I stick with MSCI. You're saying the MSCI World Index.

00:07:45 MH: Mm-hmm.

00:07:45 DH: Yeah, I stick with that.

00:07:47 DO: Yeah, I think from here it's MSCI World.

00:07:52 MH: Staley.

00:07:53 SC: MSCI.

00:07:54 MH: Rupal.

00:07:55 RB: MSCI World.

00:07:57 MH: Bill.

00:07:58 BM: MSCI.

00:08:01 MH: Interesting. Okay. Will the Dow Jones be higher or lower a year from now? So I asked that on May 12th. We obviously are not a year in, but obviously there's been this giant move where the Dow is up 30%, NASDAQ is up 41%, S&P up almost 30%, MSCI ACWI up 30%. So there's been a big move across the board. So these are the people who said higher: David, Dan, Bill, Mario and John. So they were saying the Dow would be higher from May to May, and we've had this big move already. The people who said lower were Staley and Rupal. So I'm going to see if you still believe what you said before, higher or lower. Bill.

00:08:44 BM: Yes, higher.

00:08:47 MH: Rupal.

00:08:49 RB: Lower.

00:08:50 MH: Staley.

00:08:51 SC: Lower.

00:08:52 MH: David.

00:08:54 DH: Then May or from here on out?

00:08:57 MH: Then May. So May to May.

00:08:59 DH: Higher.

00:09:00 MH: Dan.

00:09:01 DO: Higher.

00:09:03 MH: John.

00:09:04 JR: Higher.

00:09:05 MH: Mario.

00:09:06 MG: Higher.

00:09:08 MH: Okay. Is the market too hot, too cold, or just right? Now then, Bill, you said just right. David, you said global was just right, but U.S. was too hot. That was in May. Rupal and Staley, you said too hot. John and Mario, you said a little too hot and Dan, you said it depends. So I don't even know where to put that one. So from here, is the U.S. market too hot, too cold or just right? And if you want to comment on the global market, you can do that, as well, as David did. John, too hot, too cold, or just right?

00:09:47 JR: I would count the S&P 500 is too high. The value indexes are very appropriately priced.

00:09:54 MH: Mario.

00:09:55 MG: I have nothing to add to what John just said.

00:09:59 MH: David.

00:10:00 DH: I agree with John. S&P is too hot. I would say the Dow is perhaps a bit too
light and international is too light.

00:10:10 MH: Dan.

00:10:11 DO: I second what David just said.

00:10:14 MH: Rupal.

00:10:15 RB: Same here.

00:10:17 MH: Staley.

00:10:18 SC: I will double down on looking stupid the first time and I will say S&P too hot,
but I would say non-U.S. just right.

00:10:25 MH: Bill.

00:10:26 BM: Just right.

00:10:27 MH: Okay. All right. Energy, I asked if it was a buy, sell or a hold, and you were all over the map except your answers were non-specific. John and Mario were the only ones that said they would be a buy. I wonder if anyone has a position on energy at this point. So I'll start with you, Mario.

00:10:46 MG: Buy.

00:10:47 MH: John.

00:10:49 JR: Buy.

00:10:50 MH: David.

00:10:54 DH: Hold.

00:10:56 MH: Dan.

00:10:59 DO: I can't find a company in the energy complex to buy.

00:11:01 MH: There you go, editorializing again. Staley.

00:11:06 SC: Always a like -- dislike oil and like gas, same thing.

00:11:10 MH: Okay. You said that before. Okay. Rupal.

00:11:14 RB: Buy.

00:11:15 MH: Bill.

00:11:16 BM: We are buy for the first time since 1986.

00:11:20 MH: Okay. That's noteworthy. I asked you if you would buy Disney or Netflix. This is a good one. So David, Staley, Mario and John said Disney, which, by the way, is up 71% since that day. Bill said Netflix, which is up 16% since that day. Rupal and Dan said neither. So my question for you now is not about those stocks. It's a new one. Would you buy LVMH or Amazon? Bill.

00:11:46 BM: Amazon.

00:11:48 MH: Rupal.

00:11:49 RB: Amazon.

00:11:50 MH: Staley.

00:11:51 SC: LVMH.

00:11:53 MH: David.

00:11:55 DH: LVMH.

00:11:56 MH: Dan.

00:11:57 DO: LVMH.

00:11:59 MH: Mario.

00:12:01 MG: Amazon.

00:12:02 MH: John.

00:12:04 JR: Amazon.

00:12:07 MH: Okay. I asked you who would be the next president of the United States.

00:12:12 JR: Mike Pence.

00:12:13 MH: All of you said Biden except for David. So I'm just gonna ask you this now.
Who will be the next president of the United States given all that's gone on? A bit of

a joke. Does anyone think that Trump will not serve out the next 13 days? Will not.

Bill.

00:12:34 BM: He will.

00:12:36 MH: Rupal.

00:12:39 RB: He will.

00:12:40 MH: Staley.

00:12:41 SC: No clue.

00:12:43 MH: Mario.

00:12:45 MG: He'll serve.

00:12:46 MH: John.

00:12:47 JR: Mike Pence will be the next president.

00:12:50 MH: David.

00:12:52 DH: You know, I'm gonna go on a limb. I think John might be right. I think he's cracking up and maybe Pence will be the next president.

00:13:00 MH: Dan.

00:13:01 DO: I think he serves out the next two weeks.

00:13:05 MH: Okay. These are a few new ones before we get into macro issues. Television shows, *The Queen's Gambit* or *The Undoing*? Rupal.

00:13:16 RB: *Undoing*.

00:13:18 MH: David.

00:13:19 DH: I'm only part way through *Queen's Gambit*.

00:13:23 MH: Dan.

00:13:24 DH: Well, wait a minute. No, no. I'm doing. I guess I (unint.) that. *Queen's Gambit* from what I saw.

00:13:31 MH: Dan.

00:13:32 DO: *Queen's Gambit.*

00:13:33 MH: Staley.

00:13:35 SC: *Queen's Gambit.*

00:13:36 MH: Bill.

00:13:37 BM: *Queen's Gambit.*

00:13:39 MH: Mario.

00:13:39 MG: I just watched *The Undoing*, so *Undoing*.

00:13:43 MH: John.

00:13:44 JR: Same with me, *Undoing*.

00:13:46 MH: Okay. Small caps or large caps from here. Bill.

00:13:51 BM: Small.

00:13:52 MH: Rupal.

00:13:54 RB: Large.
00:13:56 MH: David.
00:13:57 DO: Small.
00:13:58 MH: Mario.
00:13:59 MG: Small.
00:14:00 MH: John.
00:14:01 JR: Small.
00:14:03 MH: Dan.
00:14:04 DO: Small.
00:14:05 MH: Staley.
00:14:06 SC: Large.

00:14:08 MH: If you had to choose an industry group, would you buy banks or would you buy asset managers? David.

00:14:17 DH: Banks.

00:14:18 MH: Mario.

00:14:22 MH: You know, J&J is my favorite bank, so banks.

00:14:26 MH: John.

00:14:27 JR: Asset managers.

00:14:29 MH: Dan.

00:14:31 DO: Banks.

00:14:33 MH: Staley.

00:14:34 SC: As long as it wasn't this value dinosaurs, I'd do asset managers.

00:14:37 MH: Rupal.

00:14:39 RB: Asset managers.

00:14:40 MH: Bill.

00:14:41 BM: Banks.

00:14:43 MH: Okay. Last one, Tesla or Daimler? Staley.

00:14:50 SC: Daimler.

00:14:51 MH: Dan.

00:14:53 DO: Daimler.

00:14:54 MH: David.

00:14:55 DH: Daimler.

00:14:57 MH: Rupal.

00:14:58 RB: Daimler.

00:15:00 MH: Bill.

00:15:00 BM: Daimler.

00:15:02 MH: Mario.

00:15:03 MG: Daimler.

00:15:05 MH: John.

00:15:06 JR: Daimler.

00:15:07 MH: Okay. All right. Let's go into the macro. So I want to start with the elephant in the room, which is what happened yesterday at our Nation's Capital. The market was basically undaunted as the scenes were playing out on television. How do you explain that? How do you think about the lack of reaction? It peaked at 600, over 600. It came down on the Dow to close over 400, but that's not really material. Who has a point of view on that? Why don't I start with John.

00:15:42 JR: Well, I think it was -- the whole thing was a surprise. I think when it became clear that Georgia was going to elect two Democratic senators and you put on top of it the unrest we had, my projection was that we would have had a down market. It was very much of a surprise, both instances. And so it's just a reminder of what we all believe in, that long-term investing is the best way to invest. It's best not to try to

do market timing. The markets have this amazing way to discount the future and to not worry about the current emotions of the moment. And so I think it's so great that all of us don't get caught up in the emotions of the moment and think long-term. So even though I was wrong in my thinking, it didn't change anything that I did on a day-to-day basis of how I invested our portfolios.

00:16:32 MH: Anyone have a point of view on this?

00:16:34 DH: Well, I think that given this is 14 days before the change of Administration, I think people just realize that there's gonna be out with one Administration, in with a new, and the other has a little of grime and dirt on it. It's not such a big surprise, because I think we knew he had to be pulled out of there. So I think people saw this as a temporary phenomenon, and not completely unexpected given the character in the White House.

00:17:06 MH: Does anyone expect any longer-term or collateral damage from just yesterday, our Nation's Capital being invaded, desecrated? Anyone worried about that as it relates to economy, markets, anything?

00:17:19 RB: Well, the international -- you know, people who matter, I mean, the leaders of international countries all condemned what happened in the U.S. yesterday. So I thought it got a much bigger international reaction than it did a domestic one, frankly.

00:17:35 MG: Yeah. I don't think anybody outside the United States would applaud. Secondly, they're gonna all wanna suck up to Biden and say the obvious. So, you know, no surprise in what the international cohorts would do. But from the point of view of the next election, which is going to be in the spring of 2022 as they prepare for the midterms, we're going to see an extraordinary amount of money put into the system, but they don't want to basically get on an economic high over the next six months. They want some of that to roll in in the first half of 2022. So as you look forward, you don't -- you have that continuing swoosh to the economy. And then you kick in what's going on in the rest of the world, which is a lockdown.

00:18:20 So that's why I think the market did okay. They looked past the issues of taxes and past the issues that are going to be negative for capitalism, but they're looking forward to those optimistic bright spots that are gonna unfold with this Administration coming in power.

00:18:38 MH: David, were you going to say something?

00:18:39 DH: Yeah. I was gonna say I think one unintended consequence of yesterday was it seemed to have brought our country perhaps a little closer together, because I think a lot of people on all sides of the aisles were disgusted by what they saw, and sadly, maybe it took something like this to get us all focused on what we hold near and dear and the values that our country stands for. Clearly, what we saw yesterday

and frankly some of the summer riots in places like Portland is not what our country stands for. So hopefully, we can learn from this and we can move on from this and we can be more unified even though we have some differences of opinion.

00:19:17 MH: So let's just back up. Staley, you were gonna say?

00:19:21 SC: Well, yeah, I was just gonna say, I mean, couldn't you make a bullish argument that -- you could look at this and say that was such a dramatic endpoint, that our four-year experiment with fascism is over and that, you know, what this does to his power going forward could be interpreted as bullish. I don't know. I'm curious for your own thought, Mellody. You bring a lot to this discussion. What's your cut on this same question?

00:19:50 MH: Well, I'm the moderator. You're not supposed to ask me. My thought is that -- I actually -- I was in John's camp. I thought it was going to be a harder day in the market, because it is the most overused word, of course, of the year. It's so unprecedented and such a visual that was so disturbing. But I also think that there is something to be said for the fact that the Senate went right back in and said, "We are undeterred," and I thought that spoke volumes about the Democratic process not being affected. And I think at the end of the day, there was a bit of coming together there.

00:20:23 I'm worried about still some more consequences of this that we just, you know, can't really foresee, and so we'll just see what happens. But this angry mob is not done. It just doesn't feel like that to me, but we'll see.

00:20:40 Let's back up and let's ask the other obvious question, the other elephant in the room. This market moved -- has been incredibly strong, from where we were at the depths of the pandemic, you know, the fall that we saw in March, that 20-day period where we went to the fastest bear market in record history, that moved to where we are today just in the indices. We're going to get to some individual stocks that you brought up. The numbers are stunning. Does the market not know we're in a pandemic? What is going on from your perspective, Bill?

00:21:19 BM: I think when people think about the correlation between the market and the economy, they get it backwards. I think I said this last May too, which is that the market predicts the economy. The economy doesn't predict the market. And so the market is looking forward at least, you know, six months or so. Pandemics historically have tended to act more like natural disasters than they have been like longer-term phenomenon.

00:21:44 And I think also just going back to your question, just previously, Mellody, was, you know, people tend to think dramatically and not quantitatively. So when an event like -- the first thing is it's an emotional thing, and you react that way. But the market cares about what the impact is on cash flows and earnings going forward.

And yesterday, as David said, is a temporary aberration that will no impact whatsoever on cash flows, and that's why the market could look right through it.

00:22:10 MH: Got it. Did anything surprise anyone about the market recovery?

00:22:17 DO: Well, I mean, we've had probably the largest and the swiftest injection of money, you know, from the monetary policy and also from the fiscal side. I mean, usually in a crisis, it takes, what a year before the government reacts? And certainly in the financial crisis, it took a long time before there was huge fiscal and monetary intervention. And I guess because, you know, authorities have become so accustomed to injecting money over the last ten years in the economy. You know, it happened like that. And certainly in the U.S., you know, we injected close to what we spent in 2020 dollars into the economy for what we spent on World War II over three years.

00:23:06 So, I mean, don't underestimate that. I mean, that is absolutely unprecedented and massive. And I think that more than anything else, you know, speaks to the very quick recovery in the equity markets.

00:23:21 MH: Well, let me actually ask you to --

00:23:22 DO: And that's (unint.) yesterday, right, because now we have a Democratic Senate. Every American is going to get a \$2,000 check. And, you know, what are they gonna do? They're gonna go and they're gonna spend it.

00:23:35 MH: Let me ask you a question about that. I'll start with Mario on this. Was the stimulus too little, too much, just right? How do you feel about the amount of money that has been injected just in the U.S. economy alone, not to mention the world?

00:23:48 MG: You've got two parts. The first part was absolutely appropriate, very timely, and we talked about that in May. So whatever happened in May, June, July we all anticipated. We knew that was working, fiscal policy, monetary policy, and they went into the hypersonic mode. This current round is too low, okay?

00:24:08 MH: So you would have done the \$2,000?

00:24:09 MG: They've got to do a better job of saying someone in Chicago, someone in New York probably has a little more cost structure than someone in let's say -- I'm gonna pick some state, some city somewhere else. So can they regionalize the payments? The answer is no. So this is a problem, and you've got inequality within the context of whether you give \$1,200 or whatever you do to the family, and then, you know, there'll always be some 2% outliers that shouldn't get the money, but you need more.

00:24:43 MH: David, do you think too much stimulus, too little, just right? Just America. I know the rest of the world is different.

00:24:50 DH: I think the first batch came out, as Dan mentioned, rapidly, and this is exactly what we needed, rapid both fiscal and monetary. That's what we needed, and it was very blunt. They needed to get the money out there. It needed to get multiplied through the system. I think the second batch, I don't know about the amount, but it should be more precise. I mean, you have to (unint.) where the pain points are and try to really attack those pain points with the stimulus. And I think the second time around, they weren't precise enough. The first time --

00:25:23 MH: So it's Samaritan's Law.

00:25:23 DH: -- it was a luxury for precision. The second time, you should have learned a lot. You've had six months, seven months. Learn to be more efficient and effective with what we have. And I think that's what is missing.

00:25:37 DO: I mean, let's remember, you know, a good chunk of the country is doing as well or better than they ever have. So why we're showering money, you know, on people who don't need it, you know, to David's point about precision, doesn't really make any sense.

00:25:55 MH: So at the end, that is not doing well, the number of people who moved into poverty, the number of people who are food insecure, 17 million children. These numbers are staggering. So that's the point about being more precise, right?

00:26:07 DO: Yeah, exactly. Right. I mean, send the money, you know, in meaningful amounts to where it's really needed, you know, rather than send it to people who are, you know, just gonna --

00:26:18 MG: Mellody, I'm just going to hitchhike on that, because in New York, you've got the restaurant and hotel workers' unions that have really been hurt, with unemployment rising at an accelerated rate. That's the kind of precision that David was talking about that we didn't do. Maybe you've got to give a little extra there and a little less somewhere else. I don't know how you do it, because everybody votes for their particular pork barrel.

00:26:41 MH: Given the amount of stimulus that we've had, John, are you worried about inflation, more worried, less? You know more stimulus is coming given the Democratic control of the Senate now. I mean, it's foregone conclusion.

00:26:56 JR: Well, I said back in May, as we talked to our favorite economist, Bob Aliber from the University of Chicago and Burt Malkiel who, you know, wrote *The Random Walk Down Wall Street*, and other experts on history of the markets, there really is a strong sense that the higher interest rates are going to be coming. They're

inevitable with all the money that's been spent. And I'm okay with that. I think it'll actually be helpful to some parts of our economy to have higher rates. Particularly our banks and some of the financial services companies will benefit from higher rates, so it's not all bad.

00:27:29 Obviously, PE multiples will go down, especially in the larger high-flying stocks, because they've been propped up by these historic low rates. But I do think that we will have -- higher inflation and higher rates will follow, and they'll happen sooner, much sooner than most people anticipate.

00:27:45 MH: And, John, what is sooner in that situation? Is that six months, a year? I mean, the Fed has said they were keeping rates low for the next couple of years, that they gave the inflation number they were comfortable with. I mean, do you think -- and everyone is anchored to that, obviously.

00:28:02 JR: Yeah, I think everyone is anchored to that. As I've talked a lot to people, everyone's said, "Well, the Fed says it won't change for two years." I think they'll be forced to change once they see the animal spirits are going to come out, as everyone comes back from COVID, everyone's going to be out shopping and traveling, going to restaurants. We're gonna have the much higher stimulus that's gonna come from the Democratic leadership. All these things are gonna come together to, I think, force the Fed's hand. So to answer your question directly, it'll be closer to a year, not two years.

00:28:33 MH: So does anyone think -- how do people feel about this supply/demand equation in terms of what kind of pent up demand exists in this economy right now? Does that mean we'll come out in a vaccinated world with a very, very strong economy? And I'm not back to the letters, but just more -- how much economic growth do we think we'll see? And I know none of you are macro. You're all bottom-up stock pickers, but this unusual time is one that having an eye towards this, I think, is relevant. Bill, do you have a point of view about this?

00:29:06 BM: I do. Yeah. So the issue for most of the past ten years at the macro level has been basically trying to get the inflation rate to 2%, which they did exactly in two quarters in ten years, but that was always the objective. And so what's happened -- and deflation was the problem. And I think when the Fed changes its reaction to function in, you know, August/September of 2019 and then doubled down on it with this remarkable gunning of the money supply in response to the pandemic, I think we're done with the disinflation or the deflation issue. And I think the combination of those two things is as significant for the economy as when Volcker in 1979 decided he was gonna basically -- really going to get rid of inflation by tamping down the money supply.

00:29:54 So they've done just the opposite this time. And so I think that right now, we're gonna have -- you know, the market has already moved over 2% implied or expected inflation rate. So I think we're gonna have a boom next year, consumption

boom, because the savings rate has been so high. And I think as the economy comes back, money velocity will start to go up, and there'll be upward pressure on prices. The commodities market is already telling you that.

00:30:18 DO: Melody, can I make a comment here about this --

00:30:20 MH: Yeah, sure. Please.

00:30:21 DO: -- about this, you know, situation. I think one of the most important ways to understand, you know, the potential for the economy to take off and the latent power of the consumer to spend is look at the banking system, right? So we've gone through this tremendous economic dislocation and had a period of extremely high unemployment, and we still have high unemployment, but not as high as it was, you know, in March or April. But if you look at banks, loans have not gone bad yet, right? So I own Citigroup and they've taken enormous provisions, but they haven't written off any loans in any meaningful ways, and American Express is the same way.

00:31:04 And so typically, you know, in a crisis, you see loan losses go up, which is just another way of demonstrating the pain that the consumer has suffered, right? In a crisis, that reflects consumers' basically stepping backwards. And then in order for the economy to go forward, those same consumers have to sort of rebuild before they can go forward again from the prior peak.

00:31:29 Well, what we've seen here is we've seen no step down. We've seen, you know, loans retain their quality even though banks have provided for them, which is another way of saying that the consumer has not really gone backward in a significant way in terms of their potential to spend. And so once the coast is clear, you know, I think you're gonna see just an incredible amount of money being pushed into discretionary areas, particularly travel, vacations, those types of things, because there hasn't been with a large portion of the population the type of retrenchment that you normally see.

00:32:09 MH: I'm gonna come back to that as it relates to industries, because I want to ask about travel and leisure. David, you had a point you wanted to add?

00:32:15 DH: I would just say what we're probably gonna see in my view is finally the increased velocity of money. You had over a decade of capital build on banks' balance sheets, which has slowed the velocity of money. (Unint.) we haven't seen the growth (unint.) of the increase of the money supply. And I think (unint.) banks will be at or above the regulatory requirements with people having huge amounts of high savings. And finally, with this pent up demand for people being tired of not spending and not traveling and not going out, I think you're finally gonna see the increase in the velocity of money, and this kind of dovetails with what will happen with inflation.

00:33:01 MH: When you look at that around the world, Rupal -- so we've been focused on America in that part of the discussion from stimulus to inflation. Around the world, what story do you see unfolding? And I know there's no one story, but is there one that is more common than not that you see?

00:33:19 RB: I think when you talk about, you know, the world economy, it has to start with China. And China has recovered extremely well, and it looks like, you know, it's gonna continue down that path, I mean, every indicator we see, the markets see, etc. And hopefully, you know, with this new Administration, you won't have the same kind of trade rhetoric. I'm not gonna say it's gonna go to zero, but hopefully it'll be a bit more constructive, you know, that sort of held back, both sides, significantly. So I think China is in a very good place, and they've taken all the right steps and, you know, it looks like it's gonna continue, and that has a very salutary effect on a lot of other countries, you know, that China tends to pull through along with them, so the commodity complex as we've already seen.

00:34:00 I think Europe, as always, seems to muddle through. It tends to be a bit more late cycle. So if you've missed the rally, you know, in the U.S., you kind of get a slow motion playback in Europe, and it'll also be more moderate. You know, that's just the way it is. So you won't see heavy growth rates, but you will see steadier ones. I think this is actually the most beneficial environment for Europe, because if there was one region that was really flooding and continues to flood with deflation, that was it. And, of course, you still have negative rates.

00:34:34 So I think to the extent that this audience is correct about whether it's in a velocity of activity, velocity of spend, stimulus, resulting in sort of this inflationary bias, I actually think that's more helpful to Europe than it can be in the U.S. just because of the delta. It's a far bigger reset for Europe compared to what's priced in.

00:34:56 MH: Well, Staley, let me ask you about Europe a little bit more. Let's probe on that, because it's like Brexit didn't even happen. I mean, something that was such big news happened on December 31st, and it reminded me of Y2K, you know, like a whole lot of nothing. Is that just because we're all distracted and there's, you know, more to come, or do you think it just sorted itself out and it's a non-event?

00:35:23 SC: I don't know. I mean, it is -- it just seems so overshadowed. I mean, that could be the explanation, but there's also -- this is such a new thing. There's no history to study. There's no precedent. I think there's just a lot of wait and see around it. People aren't necessarily stamping hard core bull or bear. They're just, you know, not so sure what happens here.

00:35:49 I think some of the difference between the European value mix compared to what we're all kind of saying about the S&P is less of the technology sector, you know, less of the growthy things. That's some of the difference.

00:36:09 MH: Anyone have an opinion on this Brexit? Rupal.

00:36:11 RB: Yeah. I think we might be looking in the wrong place when you say there's been no reaction. There's been a humongous reaction in the sterling. It has been one of the weakest G-7 currencies for a number of years. So I think it's not manifesting itself in the obvious places, but the currency markets have spoken decisively. The sterling is very, very weak in the last five years, since Brexit was, you know, voted.

00:36:35 MH: You mentioned China, Rupal, and I just want to ask, I want to go back to that point while we're sort of talking about the rest of the world. So China has recovered. Everyone is saying that they're more or less back to normal in terms of how the economy is operating. Things are open. It's shocking given the size of the population that they can control the pandemic better than anyone. Some human rights issues may or may not be in question there. But the question, what leg up does that give China coming out of this pandemic, that their economy is first to recover and will be on solid footing while other people are still trying to stand up, other countries? David, do you have an opinion on this?

00:37:16 DH: Yeah. I think China came up the fastest because they are, given that some other economies, more of command economic structure. They could very quickly and even faster than the West implement stimulus. And I think what China's gonna have problems with in the next couple of years is if the Biden Administration is successful at what they state they want to do. The U.S. has been aggressive towards slowing what we'll call the issues of China, the theft of intellectual property, the

unfair trade practices. If in fact Biden is successful at getting a bigger coalition, especially with the Europeans, this might be harmful to the Chinese. This might impact them.

00:38:04 On the other hand, it might force them to change. Xi seems to be more of a nationalist than any one of us thought we would be, so who knows if that will happen? But in the meantime, you know, the President-elect is rounding up a posse, so he says, as a desired objective. This may slow down China in the medium term, in the two or three years.

00:38:27 MH: Does that mean you'd want to avoid the region?

00:38:31 DH: No. I think that you just have to keep this in mind. And the other aspect to the region, which is a bit scary for us investors -- we're invested in businesses. We own property. We're capitalists. If the heavy hand of the Chinese regulators starts even getting more aggressive, like we've seen them do with Ant and Alibaba, this is going to put a very, very elevated risk premium on Chinese stocks.

00:39:01 Now, on the other hand, the Chinese -- you know, they're wise to that as well. So I don't know how hard and how far they want to push that. But they've, in the last six months, between Hong Kong and what they've done with Jack Ma and Alibaba and Ant have been very aggressive. If they keep progressing in this type of action, then

it's gonna deserve a much higher risk premium than it is, and that will turn off investors, and that will limit investment opportunities in China.

00:39:34 MH: Are you worried about -- go ahead, Mario.

00:39:36 MG: I disagree with that. I think, basically, when you look at China, they've got 18% of the world's GDP. The consumer sector is probably pushing 45% or 50%. They're gonna grow that at 6% to 8% to 10%, and that's gonna be a very powerful real GDP growth driver. That's been going for a while.

00:39:53 The second part is that what we did to Bill Gates and Microsoft, what we did to AT&T and busting up Ma Bell, what we're gonna do to these companies on social media around the world. What Jack Ma did is he just got a little ahead of himself. So they basically said, you know, you've got a problem.

00:40:12 DO: Yeah, but there's a huge difference between those --

00:40:14 DH: We don't think Bill Gates and --

00:40:18 DO: I mean, you look at, you know, the FTC's action against Facebook and Google, and you can read hundreds of pages of Congressional committee conclusions. You can compare it against, you know, legal precedent, and you can compare it against the law. With China going after Alibaba, which they're currently pursuing, you know,

antitrust investigations, you know, it's a one-page press release with a few bullet points and there's no rule of law behind it. You have no idea. They're gonna do whatever they want. They can't do that in the U.S.

00:40:55 MH: Does that make you avoid the region, Dan? Does that make you leery of Chinese stocks?

00:41:01 DO: Well, I've been leery. I've always been leery of Chinese stocks, right, because it's a totalitarian dictatorship. You know, you invest in Alibaba or Baidu, you don't actually own the company. You know, you own this bizarre VIE structure, which doesn't give you any real rights. So anybody who owns that should be cautious.

00:41:22 MG: Michael and I have the same problems in Holland in dealing with the Dutch rules in terms of litigation, and I have the same problems in Wisconsin.

00:41:33 MH: Is anyone concerned about retaliation from China on these stocks that have been basically banned from being held, the Chinese military?

00:41:41 MG: Mellody, since I own some of those, and maybe Rupal has some -- you know, every broker is telling me that they will put a stop and sell everything they own of any of our products. To me, that's terrific. But my own sense is that Biden comes in, he says, "Ah, let's reverse that ruling that Trump put in," and a sheik comes along and says, "Well, we're gonna buy 200 more 737 Maxs. We need them for internal."

And so they'll start doing nice-nice to each other and hopefully that happens in three weeks, and that'll settle things down. That's my kind of, you know, dream wish of -- and investing in the Chinese market. So we do that. We have some content companies there. We have some consumer products companies there.

00:42:28 MH: Rupal, what do you think?

00:42:30 RB: Mellody, I don't see why the Chinese would complain about what's going on, because essentially, what has happened is, you know, certain people have forced to divest of certain securities, potentially as distressed sellers because, you know, people interpreted this in different ways. And the buyers have been, you know, Chinese and non-U.S. persons by definition. And so you're just getting an investment bargain potentially, you know, because of forced selling.

00:42:55 Where is a complaint in that, you know? I mean, people are sort of abroad going to scoop up an investment bargain just like, you know, any investor does in the world. We just give them the opportunity. So I don't think it was any skin off the back for the Chinese, you know, for their stocks not to be owned by U.S. people. I just think it changed, shifted hands. The ownership changed, but not the capital access, which was the end (unint.).

00:43:18 MH: I wanna shift gears. So starting in the fourth quarter -- I know we've had this value versus growth discussion for 13 years now. But in the fourth quarter, there

was some change in leadership marginally. And even into the New Year, these first few days, we're seeing value outperform. What's going on, Bill?

00:43:41

BM: Well, it goes back to what I said earlier. So value actually started to outperform when the Fed changed its reaction function in August/September of 2019, and value outperformed up until the pandemic struck, and then we got reversed all of that. And I think right now what's happened is that it's become clear that all of the stuff that we've talked about, money supply and QE buying bonds and the stimulus, has got the economy -- now the economy has traction on the upside, and we're shifting back to value again. I think most people here had said earlier that they think that the risk of inflation is now higher than it used to be, and the growth might be faster than people think it will be, which means that if growth is gonna be faster and inflation a little higher, companies will have more pricing power, earnings of the value names will grow faster than they otherwise would have. And what that means is that the relative scarcity of growth is less.

00:44:34

So the higher growth names will be under greater pressure. I don't think there's going to be pressure because of higher interest rates necessarily. I don't think interest rates are going to go high enough to make a difference, but it'll be the relative scarcity of growth. Let me put it another way. Value names will start to grow faster than they have for the past 13 years, and the big growers will grow slower off the margin of what they did in the last year, and that means value is not going to do well I think for at least a year, at least.

00:44:59 MH: At least a year. I was just gonna ask you, John. So we, obviously, have a bunch of asset allocators on the phone. There are over 1,500 people on this phone call, on this Zoom call. How would you suggest they think about their asset allocations? Many portfolios have been overweight in growth because of the extreme perform that has existed there. You're all value investors. What would you be doing at this point?

00:45:24 JR: Well, I would be aggressively getting more engaged and more involved in value stocks and the undervalued parts of the marketplace. As we talked about last time, anecdotally, you know, serving on a number of investment committees, the number of times that I've been sitting in a meeting recently where the consultants come in and say, "Fire the value managers. Get rid of the value managers. They're never going to outperform." This time, it's different. These top tech stocks will only go up. A lot of value managers are going out of business. We're sort of looked at dinosaurs. Those are signals as the contrarian that the value is really underpriced.

00:46:01 And finally, we talked before a little bit about the fact that Charlie Bobrinskoy, our Vice Chairman, created a program to help get eighth graders exposed to the stock market, working with Big Shoulders, our largest Catholic charity here town. And I think there are roughly 60 classes being mentored by many financial services executives. And over 90% of those 60 schools outperformed the S&P 500 last year. All these eighth graders were all outperforming all the work that we all do, because

they all owned the same names, all the same stocks, the Teslas, etc. It's like shooting ducks in a barrel. It was too easy.

00:46:41 Again, whenever that happens where everyone thinks that this time it's different. You can get rich by buying all the same names that have gone up the most from last year, it's a sign that we're really top heavy. So to those asset allocators I would say it's time to get on the bandwagon and believe in value. It will come back, and it will last for a very, very long time.

00:46:59 MH: What a very long time, John? Does value have a decade of outperformance ahead of it, five years, three years? I know there's no way of knowing, but if you were to guess, because the mean regression, the numbers are so far off for the last decade. How would you think about that?

00:47:15 JR: For all the suffering we've done, I think we deserve at least a decade, you know, at least a decade. But it does seem like these days --

00:47:22 DO: I'll second that.

00:47:23 JR: Yeah. Things get telescoped into shorter and shorter periods of times. We saw what happened in the spring, so you never know whether it's three years, five years, or ten years, but we're gonna look back and realize this was a great

opportunity to find bargains, and we're gonna have our day in the sun and won't be looked at like these old dinosaurs as much as we are today.

00:47:44 MH: Does anyone see the possibility of growth continuing a strong run for the next few years, not because you're value managers, but what scenario would have to play out for that to keep going?

00:47:56 DH: I think the math just isn't there. When the weight of money goes into such a narrow sector and the prices become so imbalanced, all it's gonna take is a little bit to flow the other way to get what wasn't invested moving. And I think we're at the stage now where the weight of money is just so -- almost against the law of physics. If you look at this, we've all seen the market cap of Tesla versus the industry. Just to me, it's so non-compelling that you can keep moving somebody that big and getting velocity on it. It's too big to keep outperforming.

00:48:40 RB: Mel, I read a very interesting stat in terms of growth. You know, ultimately, markets care about profit growth and valuations, you know, are just a multiplier on that profit growth. And if you look at the last decade, world EPS growth excluding tech stocks, tech sector, was zero over the last decade. So it's profit growth that ultimately, you know, drives sort of the security performance.

00:49:06 So I think to answer your question, growth of technology sector's profits would have to slow down and/or reverse. And likewise, but I am in the camp of, you know, Bill

and this audience here, that for the first time in a long time, we see glimmers of substantive and sustainable profit growth in the value portions of the indices compared to the tech portions. So I think that's what's gonna drive, you know, the reversal in favor of value is that profit growth there has a chance to grow faster than the alternative, and the valuations are lower, so the starting point is better.

00:49:42 MH: One of the things I noticed -- yes. Yes, John.

00:49:45 JR: So a question I had for my colleague, you know, Bill has had an extraordinary run since the last time we met, and so he's somehow been able to withstand this pressure the value managers have had. So I'm curious. How have you been able to think about this differently and show such extraordinary results?

00:50:23 BM: I would come at that two different ways. The first one is that we were very early, going literally back to the mid-1990s and looking at technology names, and so we're able to develop some expertise in the analysis of that. And so we've owned Amazon, you know, literally since the IPO. And so we have -- to put it in even more theoretical terms, most value managers, you know, have a certain -- their portfolios look a certain way with respect to PE, price-to-book, price-to-cash flow, balance sheet, that kind of thing. And big tech companies and big growth companies look differently.

00:50:39 So we have factored diversification in our portfolios. The difference, I think, with us and most growth managers is -- so Farfetch is our biggest holding in the portfolio. It's about 6.5%, and the stock is in the \$60s. We paid \$9 for it in the spring. And so it had come down from the \$30s. So we tend to buy the growth names when they just get crushed, and that's what helped us, you know, in the past year or so.

00:51:04 I happen to think also that -- I do think that value is going to significantly outperform the so-called growth names, but I also think that those names will do well. So Amazon, for example, has gone sideways for six months, and I think that -- you know, since building a big base at the current level. So my expectation is that the market this year will do very well. Value will beat growth, but also that I think the growth names after this consolidation will also do well. So I think it's gonna be a broad bull market this year. It's been narrow, you know, for the past ten years. I think it's just gonna broaden out with value now taking the lead.

00:51:39 MH: I wanna ask a follow-up question to that, Bill, because we're gonna talk about stocks. And Teva Pharmaceuticals was your largest holding in May, and now it's --

00:51:49 BM: (Unint.) mention in May as the favorite, yeah.

00:51:52 MH: Yeah. And so has your point of view changed on that one?

00:51:55 BM: Oh, no, no. I love Teva. I think it's one of the best names in the market. I think it's --

00:51:59 MH: But one of your toughest performers, right?

00:52:01 BM: It hasn't performed well in the last 12 months, but Teva's binary in the sense of we were expecting that in 2020 there would be a settlement, a global settlement with the opioid companies, and that didn't happen because of the pandemic and also the trials got postponed. So our expectation is that there actually will be a settlement this year, and it's the case that, as I might have mentioned when I mentioned Teva the last time, the market always assumes the worst case in product liability cases. I'd say 80% of the product liability cases are settled in ways that are far, far below the payouts to these companies, because the State Attorney's General doesn't want these companies to go bankrupt and lose their payout over years.

00:52:47 So if that cloud lifts on Teva -- I mean, Teva's trading at, you know, about four times earnings and it should be trading around at least 10 to 12 times earnings. It's the largest generics company in the world. So that can give you a double from here fairly easily. It's also started to act much better this year, as you might have noticed.

00:53:03 MH: Yeah. So I want to talk about stocks now. We can shift into that. So, Bill, you might weigh in on this one too, but, Dan, I'll ask you. You and Bill were both bullish on airlines. Now, remember, you know, no one was in airplanes at the time we were

talking about this. You made your case for Southwest. You talked about the cash burn, why they could last through it. Bill, you were buying and holding United and Delta. All of those stocks did very, very well. What's your view on them now? Dan, has your view changed on Southwest?

00:53:35 DO: No. I mean, I think, you know, Southwest is in a better position than most of the other airlines in the U.S. to recover, because it's a purely domestic business, number one, right? It's less reliant on business travelers, and it has virtually no international exposure, right? So it's all domestic and it's mostly leisure, and it has a very strong balance sheet. It went in with the strongest balance sheet. It went in with a net cash balance sheet, and it continues to be in a very strong position.

00:54:09 So, you know, you're actually seeing them start to play a little bit of offense, adding some new routes, you know, so that they're in a structurally better position to grow as demand comes back. So I think the business will do very well. Now, the stock from here, it's recovered a lot from the bottom, and, you know, for this stock to do really well from here, there does need to be, you know, a surge of travel such that we see, you know, even higher than normal travel rates than -- you know, we need to get back to 2019 very quickly and above it. And I think it's possible, you know, given the pent up demand that we see an extraordinary surge, which would make the valuation attractive. But if we don't, if we don't see that, you know, then the valuation is decent, but not great.

00:55:04 MH: Bill, how does that line up with your thinking around Delta and United? Still feel the same way about them, lightened up, bought more?

00:55:09 BM: It's similar. I mean, I think, and I don't think this is a contrarian view, that business travel is going to be very slow to come back. And so it might be a couple of years, and Delta depends a lot on business travel. We still own Delta, but we've actually switched United and have gotten into cruise lines, because I think that that travel with the pandemic vaccinations and stuff like that, that's going to come back much, much faster. And so we like the cruise lines here.

00:55:41 MH: Let's stay in the leisure and hotel space, that area. Staley, you have Hyatt, which did very well. That was one of the names you talked about. It's up 57% through yesterday since the day we spoke. You still like the name. Any other areas in hotel and leisure, or what's your outlook for Hyatt from here?

00:56:00 SC: We do still like the name. I mean, they have a great brand, great point system, a lot of the things that maybe not of Marriot and Hilton size in total quality, but very close. And we think on their smaller base, their room pipeline will grow faster, you know, in percentage terms. So I think long-term, the thinking is unchanged. Short-term, because it's up, it is less attractive, but not enough in our opinion to sell it.

00:56:30 The other thing we've done is MGM. That one is kind of like Hyatt. We're not gonna be good at making a guess on the next two or four or six quarters, but for three to five years, we think Hyatt is there, and for three to five years, we think vacancy is there. And then you take the whole very (unint.) entry into MGM and what they're doing online and that's something we're not having to pay much for within the stock price. So we think those are, you know, really low risk ways to bet on this.

00:57:00 MH: Mario, you smiled when he said MGM. Do you hold the name?

00:57:03 MG: I like what Barry Diller did with financial engineering space, spinning of Match.com, who is trading at, you know -- it went up to \$150, but he's done the digital world. And what we did in MGM was to buy 12% or 13% of the company, get a license or in the process of, with the Nevada Gaming Commission. He bought it around \$18.20. And the other day, they announced that they're putting their arms again around Entain, which is the old GDC, which is Ladbrokes, to get online gambling. And they'll figure a way to get b-e-t-t-i-n-g with sports back like the Knicks playing the other night, yay, winning. They're basically -- you will get more betting.

00:57:45 And as a result, what was just said by Staley, they are making an online presence. Even the governor of the State of New York is gonna allow gambling. There's like 22 states that allow online, and that's gonna be an explosive dynamic. The question is how are they gonna pay for it? So with 600 million shares of MGM or 500, they want

to give 300 or 400 million out, and that's where we're working through the math, but that's why I like betting. We have a lot of ways to play on it. Some of them are little nano caps like GAN, again. But on balance, this has been a very interesting area in terms of taking the (unint.) and so on, and it helps all of the sports teams that we like, because of viewing. You know, you'll stick around until the end, and advertisers will like it. They're gonna do extremely well, and they're gonna get some integrity fees over time. So I like the MGM.

00:58:37 MH: That plays into your MSGE, Madison Square Garden Entertainment investment as well, which John has. That plays into the same thing.

00:58:44 MG: No. I think John has the entertain portion, which is the buildings and mortars, and I have the teams. So I can offer you a piece -- I can get your for free the New York Rangers. Now, you may not like the hockey teams, because of negative cash flow, but you could buy the stock at \$175. That's a midcap, \$4.5 billion. They cash burn right now. So I like that. But I also like the Atlanta Braves. Unfortunately, it's a tracking stock. It's not a real ownership of the team. The league doesn't allow you to do that.

00:59:14 And then there's a couple of others in the sports field that you like. And the question is, is Jimmy Dolan gonna prefer playing a guitar on a stage where he owns the arena, or is he willing to sell the team? John.

00:59:31 JR: Well, it's funny how we ended up on the other side of the coin on this one. I love the Madison Square Garden Entertainment. I think it's probably my absolute favorite stock. I just love it. Jimmy Dolan's musical skills have been helpful in being able to track talent to the Garden. He has great relationships in the entertainment industry.

00:59:50 But as you know, MSGE, they own all the land around the Garden, the air rights above the Garden and, of course, the Garden itself. They own the Chicago Theater here in Chicago, Radio City Music Hall, Tao Restaurant Chain, and I love the new sphere that they're starting to build in Las Vegas, you know, using amazing new technology to be able to make the experience of watching a concert or an event much, much, much different. The stock has an enormous amount of cash on the balance sheet, and so I think it'll benefit from all the things that attract, to make the sports team stronger, but you're more diversified. If you believe in New York City like we do and the future of New York, I just think it's gonna be a real grand slam for us. And so it's something that I think is truly, truly special on the Madison Square Garden Entertainment.

01:00:40 MH: Let me ask you a question, John, because one of the stocks you talked about in May was ViacomCBS, which was at three times earnings at the time, but the stock is up 109% from that day that we discussed it. Do you still like it as much? Have you trimmed? How do you feel about it from here?

01:01:00 JR: We still really, really love the stock. We probably have a few less shares, because it's become such a bigger portion of the portfolio because it's grown so dramatically coming out of the bottom, when it was just being totally thrown away. You know, I think some of Redstone's theme that content matters, and that's the most important thing is really proving to be true, because they have Showtime. They have Paramount. They have the CBS Studios and all the great shows and sports that go along with it. You also have the local owned and operated stations that have the content for news and benefiting a lot, of course, from what's going on today is all the money being spent on elections. Those local owned and operated stations are doing quite, quite well.

01:01:44 And now they're coming out with Paramount Plus pretty soon. And to be in the streaming market competing with the other streaming networks I know will be a challenge, but at the same time, to be able to put entertainment, sports and news all together under one umbrella -- we think they're extraordinarily well positioned, and some day Shari Redstone might realize it might make sense for it to be partnered with one of the top tech companies.

01:02:07 So there's still, we think, significant upside. It's still selling at a low PE, less than ten times next year's earnings. Terrific franchise.

01:02:15 MG: Yeah, I'm a big owner of the voting stock, and the way I look at it, you've got 600 million shares at \$40, \$24 billion, \$15 billion of debt. That's \$40 billion.

Compare that to Amazon market cap, to Apple, to Netflix, to Disney, to Comcast, and, you know -- even AT&T went out and did something in Hollywood. I don't know what they did, but I don't know if they know what they did.

01:02:40 But independent of that, this is a morsel. It could be a tree bagger if they get it right. Meanwhile, Shari's got a problem, because the theaters that support national amusement, she controls the voting stock, they've got a negative cash flow. But I don't wanna get into much of the weeds, John. So I think you've got a real winner there.

01:03:04 MH: David, you talked about Credit Suisse, which went through a CEO change, and you had some views on that change at that time, but you stated publicly -- you talked about why you liked the name. It's up 46% since that day. Is that a name you still like at these levels?

01:03:21 DH: Yes. It is still one of our top three or four positions. And it's for basically the same reason. This company is basically a combination of two businesses, an asset management, a wealth management firm, and an investment bank. And they've been slowly -- under the leadership of the previous CEO, they have been strengthening and trying to increase the viability of the private bank by making sure that they invest, have a leadership position in emerging markets, etc., etc. at the same time, taking away some of the peaks and valleys of the investment bank and sticking to those areas which they have stronger franchises, which means you have a

substantially de-risked business with a good annuity-like and growing income stream all selling at a single digit PE multiple and, okay, it's bounced a little bit, but still, you know, 65%-70% of book value. And then when you add to the fact that they are over capitalized and because they're in Switzerland, in Europe, they can buy back stock and they have been, and they can keep paying dividends, I think you have the whole package here.

01:04:39 The successor to Tidjane was a good choice. The new chairman coming in was a good choice. So I think the company is really poised over the next couple of years as the strength of this business model comes through, especially when you combine it with a low valuation.

01:04:59 MH: Rupal, answer this question for me and fill in the blanks. I wish I had bought more what, what stock?

01:05:12 RB: Google.

01:05:15 MH: Do you own Google?

01:05:17 RB: No, no. You asked me --

01:05:18 MH: No. The question right now, when you were in the middle of the pandemic and you were buying, I wish I had bought more what that's in your portfolio?

01:05:28 RB: Google, the stock. I think -- you know, I think the long tale of advertising, you know, from the small business has not only democratized access, reach a large audience, which you could not do traditionally, you know, with the traditional formats of TV; the fact that you can get extremely instantaneously practically feedback of ROI on that spend, which is the holy grail of what people wanted to get from advertising, you know, tell me if I'm spending it right or wrong, I think it's a very powerful combination. And, you know, they're in a pull position to have that. And the only times you get to buy, you know, a secular franchise is when it's beaten up for no other reason than just macro.

01:06:13 But I did substitute -- I mean, I did sort of cover for my mistake, if there was a mistake at all, by owning Baidu, because it was more beaten up. It had more legs in terms of upside, and of course, it's the monopoly search engine in China and a very underappreciated franchise, because people keep thinking that, you know, they're gonna be the losers, and it's only \$0.10 and WeChat and, you know, the messaging platforms are the winners.

01:06:39 I think that that sort of zero sum game thinking is a flawed way to think about it, you know. Different companies have their own sort of growth vectors and drivers, and Baidu had its own, but people were misunderstanding that, and it's done extremely well, and it's one of our largest holdings.

01:06:55 MH: Staley, you fill in the blank on that one. I wish I had bought more what? You bought something. You wish you bought more of it.

01:07:02 SC: In our small cap fund, that would be the Atlanta Braves. Mario mentioned the Braves. When it got under \$20, it was such a joke, especially in contrast to the Mets trading, even in a pandemic and to any other sports team. They've got Malone and Maffei. It just lifted too quick.

01:07:21 MH: Bill, instead of "I wish I had bought more," I wish I had bought what? Something you didn't buy at the time that you look back on and say, "I wish I had bought it."

01:07:32 BM: Boy, that's a tough one. I can't think of that right off the top of my head.

01:07:36 MH: David, do you have one, or Dan?

01:07:41 DO: I mean, we're getting into infinity here. I mean, this is -- you know, we have errors of commission and we have errors of omission. And the errors of omission are virtually infinite. So you learn in your money management career relatively early to not go too far down that route at all, because it can literally drive you insane.

01:08:03 I mean, you know, the biggest mistake that I've made over the last probably year or ten years is just not having bought enough, you know, of these very strongly growing technology companies. I mean, we looked at Amazon earlier this year and passed on it. I think it's done, you know, very well from, you know, March on and certainly done very well from three years ago. So, I mean, that's probably the biggest single mistake, you know, as a value investor is just not having recognized. Even though I've owned Google and Facebook as some of my biggest positions, it hasn't been enough, you know, given the shift in the economy and the value creation and the destruction that that creation has caused in other parts of the economy. So that's my biggest mistake.

01:09:52 MH: David, let me ask you this question. I'm gonna ask it of a couple of you. Is it harder or easier to invest in a pandemic, or -- you know, when the market is falling apart, or in a period like now where the market has had such a big move?

01:09:11 DH: It's easier as an investor to invest in a pandemic, but you just have to be prepared to double and triple your efforts on client contact, on client relations, because as an investor, a pandemic is just a gold mine because a pandemic almost by definition is temporary. You know, we talked about the big recovery since the end of March and April, but remember what February and March looked like. I mean, so massive, massive price destruction.

01:09:47 (Unint.) companies. We mentioned Daimler earlier in this program, literally went to 20 to 21 euros from, you know, 40 or 45 in just a few weeks. And so as an investor, you're excited knowing that certainly the fundamental value of Daimler didn't drop 60%, 70%, 80% and I can take advantage of that. But what you have to do is have these discussions with your clients and try to calm their nerves and to stay relaxed even though, you know, your numbers look God awful, terrible while you're trying to catch that falling knife.

01:10:24 So as an investor, I'd much rather have panic selling than euphoria. But as a client relations person, I'd much rather have euphoria than panic selling.

01:10:38 MH: John.

01:10:38 MG: It sounds like you've been (unint.) for about 30 years, David.

01:10:43 MH: Where are you finding value now, John?

01:10:47 JR: We're still finding a lot of value in the media space. I think that's been the area where we're finding a lot of bargains. Nielsen is one that's an absolute favorite. You know, they still are the currency for the advertising industry. They keep track of the ratings not only for traditional television, but now they've moved into streaming and they're gonna have a new tech product coming out over the next couple of years that will allow them to move into the 21st Century. Now, they were slow to get it

going, but now they're going full speed ahead. So we think they're gonna be, you know, really well positioned to do really well in this marketplace.

01:11:22 The other area is financial services is a favorite. My favorite there is Lazard. It's run by a terrific CEO, Ken Jacobs, and they have a wonderful investment banking franchise, international global investment franchise. But as we all have seen, there are a number of deals happening in December and January. There's gonna be a plethora of all types of opportunities that investment bankers are gonna to be able to benefit from. So for us it's the media and the technology, and those are our two favorites in those sectors.

01:11:41 MH: Mario, where are you finding value?

01:11:52 MG: I continue to be working on several areas, one of which we call love our people and planet. In other words, let's look at the infrastructure for the planet, wind, solar. So (unint.) energy partners, but we're looking at the entire ecosystem there. For example, a company called Plug Power in Latham, New York was selling at \$4 at the beginning of the year. They have hydrogen, green hydrogen to power certain vehicles. You know, the stock is now \$44 today. So all of a sudden, the market is gonna look with a telescope and a microscope; microscope on specific companies. So we're looking at that entire ecosystem. So we like companies in that area.

01:12:33 The second area which is fairly uncomplicated is infrastructure, Inland Waterway, you know, airports, and so on. But one area that's important is rural America, distant learning, distant work. You've got to bring speed to rural America. Now, Ajit Pai is leaving next week, and so the next FCC Chairman, how do they put more money into that?

01:12:58 Now, I was a little surprised that Musk came down with Spacelinks and bid on an auction and got a billion dollars to build out speed. He didn't need the money. I don't know why they gave it to him. And so where do we play that? That's an area that we're very excited about. We continue to want to bring fiber to the home. You have to have the super highway under 5G. There's an auction going on now. I can't comment on it, because I'm in it. But basically, the numbers are gonna be staggering when they come out as to how much money people are investing in Spectrum. So those are some of the areas.

01:12:34 And then the third one is the banks, the (unint.) travel and leisure that got clobbered. I think Dan talked about this with the airlines. Travel and leisure, how sensitive is that to expenditures? And if the vaccine works, you know, which we didn't talk about. That's gonna be a very exciting area 12 months from now, 18 months as people burst out and say, "I wanna go to Chicago. I wanna go to Portland. I wanna go to see Starbucks."

01:14:00 MH: I hope so. Thanks for the plug. Bill, you're gonna get a ton of questions about cannabis and Bitcoin. A ton. So do you wanna respond on those?

01:14:12 BM: Sure. So we own one cannabis stock, Greenthumb, which, unlike most of the companies, it's got a great strategy. It's got a great capital allocation strategy as well as an operating strategy, so going into the states that have restricted licenses. It's up 50% since we bought it in the quarter, but they can grow easily 20%-25% a year for the next ten years. That's without acquisitions. And I think with this management team, I think they can grow 25% to 30%. I think the stock is currently -- the trading in the high \$20s. I think it's worth in the mid- to high-\$40s right now, so we like that one. And, again, it's one of those things where, just like gambling in the old days, the states are dying for money, and so they've got to legalize this stuff and they're gonna get licenses and they're gonna expand to choose. So that's one area.

01:15:08 Bitcoin is perhaps the most interesting. I wrote a little bit about it in my (unint.) that I put out the other day, which got a little bit of publicity, because I quoted Warren Buffett as saying that Bitcoin, he said, was rat poison. And I said, he could be right. It could be rat poison, but the rat is cash. And so that's what's gonna get killed by Bitcoin, because the government, the federal government wants you to -- the Fed's gonna pin the interest rates at zero and at 2% inflation rates, you're gonna -- the government wants you to lose money in cash for the foreseeable future.

01:15:41 And people aren't gonna put up with that after a while. You've already had Square put \$50 million of their cash balances in Bitcoin. Michael Saylor at MicroStrategy has put across many things he owns \$2.5 billion in Bitcoin. His entire cash position is in that. MassMutual just put \$100 million in Bitcoin. There's only 21 million bitcoins that'll ever exist. There's 47 million, estimated 47 million millionaires in the world. If each of them just wanted one Bitcoin, they couldn't have it.

01:16:10 So this is one of those things where the asymmetry there is so gigantic. It's market cap is now greater than JP Morgan. Bitcoin has been around 12 years. It's greater than Berkshire Hathaway, and I think that -- you know, it's one of those things where -- a friend of mine who's been much earlier than I was in the game, he was right when it came out. He said, "In a few years, people consider financial malpractice if you don't have Bitcoin in client accounts."

01:16:39 And so I think that's one of the easiest things, I think, out there. You have to take volatility, but it's quite remarkable. It's a technological innovation like we've never seen before, and it's gaining acceptance every day.

01:16:57 MG: You're long Bitcoins, obviously. Thank you.

01:17:00 MH: Mario, you --

01:17:01 MG: Basically, I'm looking at what the Chinese are doing with their digital currency, and obviously they wanna control the currency of the world in the future, and you'll see whether Bitcoin is as narrow a base as it's supposed to be in the digital world as the Chinese take a greater role in this type of dynamic. In any event -

01:17:22 MH: How far away do you think the Chinese are from really accomplishing that goal, Mario? I mean, that's been talked about for a long time.

01:17:28 MG: "I'm President Xi. I've got a job for life more or less, and I think I can get it done in five years."

01:17:36 MH: Staley, we're getting a lot of questions about SPACs. What's your opinion?

01:17:41 SC: Of course, generalizations are tough, so I'll try to do that. We have some companies we respect in that forum, and some people that we respect doing them. But the valuations are crazy. The excesses, the -- we're not fans. You know, maybe later. If they get busted there'll be some companies that came that way that could get interesting. But there are more goofy stories about SPAC than there are compelling things for us right now.

01:18:12 MH: Is anyone an owner of SPAC in their portfolio? Mario.

01:18:18 MG: Yeah. Basically, what happens, if you buy a SPAC at \$10, you get a half a warrant. The trustees have to put it into a safe deposit box, not necessarily Bitcoins, where they're personally liable if it goes down. And essentially, you get a free peek at what happens, and if you don't like it in two years, you just ask for your money back.

01:18:40 You know, in a world in which interest rates are half a percent or T-bills are 7%, you know, owning them is not a problem. Then the question that Staley appropriately said, when they buy something like nickel and it goes from 20 to 80 and back to 17, that's a question mark as to what (unint.) and whatever you wanna pick. Do you wanna be in it? That's a totally different issue.

01:19:05 MH: I'm gonna shift gears again. Rupal, when you think about great investors, what's the one essential characteristic they must have? I'm gonna ask a couple of you this question.

01:19:16 RB: Independent thinking. You gotta know what you're doing, and then be able to actually invest to that conviction even if and especially if others around you disagree. So I would say that that sort of known consensus streak, independent thinking is just key.

01:19:35 MH: Dan, what do you think?

01:19:38 DO: You have to be extremely stubborn on the one hand, and you need to be extremely flexible on the other hand, right? You need to be able to go into a situation and say, "Okay, the stock price is going down. I don't care. I see value here where others don't." So that's where the stubbornness comes in. But on the other hand, you have to be extremely flexible when new information comes in and you're wrong. You need to say, "Okay. I was wrong. I'm done. I'm moving on." And those two characteristics reside very uncomfortably inside all of us individuals, and that's what we have to deal with.

01:20:13 MH: David, what do you think?

01:20:14 DH: You know, there's an old Driver's Ed adage, aim high in steering. Don't look at the car in front of you. Look at quarter mile in front of you. I think that being an investor you cannot get caught up in the white noise of what's happening in Washington and/or Beijing or London. You have to stay focused on fundamentals. What makes a company valuable is its cash flow stream.

01:20:37 Only what's important to the white noise is the degree to which that noise impacts the cash flow stream, and usually it's very small. So look through the cycles. Use the volatility as your friend even though it certainly isn't painful, because you're gonna have to look different to succeed.

01:20:57 MH: Bill, when you think about your background, do you think there's anything specific in your background that says why you ended up being a value investor?

01:21:06 BM: I think I might have been dropped on my head when I was six months old.

01:21:09 MG: You too?

01:21:12 BM: So, I mean, I -- ever since I got interested in investing when I was nine years old, it was the case that I thought -- it was intuitively obvious that prices were more attractive -- you could make more money when prices were low than when they were high. And so I've always been attracted to low prices. It hurts me, because the stuff I've made the most money in are the big growth names. But I have this like heroin-like addiction to the busted companies that Warren calls the cigar butts. They have like two puffs left in them, but they're very cheap.

01:21:47 Like one of my favorite names right now is Gannett, you know, which is what at \$3. Newspapers are going away. But if it works, it'll be \$25 and, you know, Tupperware was \$1.50 in the spring and it's \$36 today.

 So that's what you can do in those kinds of things.

01:22:10 In response to your last question, you know, I think for a certain type of investor, at least the kind of I try and be, is emotional stability. So I think it was Napoleon who said a genius is somebody who can behave normally when everybody else is losing

their mind. And I think that's what -- you know, that's part of what -- with value investors, I think that's one of the things that we bring to the table is we can, as David said, look through a lot of this stuff and think what it looks like on the other side.

01:22:35 MH: Mario, can it be taught?

01:22:38 MG: Yeah. No. I think that basically what Bill Miller has done is constantly read and keep getting outside of his comfort zone. Staley does it. John does it. Dan does it. David does it. Rupal does it. So basically, if you wanna just do what you've been doing over the next 20 or 30 years, value investment can be taught. It was done at a local business school in New York, Graham and Dodd Murray. This guy Buffett did it, learned it when he was there.

01:23:06 You know, yeah, it can be taught. The question is, and I hate to be commercial on this, and what David has echoed, can it be sold to your clients in this world in which they want to have momentum investing and want to do what the quants are telling them to do, the ETFs to be bought. Can they be a barbell in terms of their portfolios for those that are listening? And that's the question. You know, everyone has different styles.

01:23:33 MH: Mario, you've done this for a very long time. I wanna ask a follow-up on that, because you are, of everyone here, probably the one who has done the longest. You

talk about the '70s and the investing environment then. How frustrating is this, to see over and over again these moments where the style is in or out of favor, the boom of the assets coming up, the people moving away? What is that like for you?

01:23:57

MG: No. I saw this in 1893 in 1907, 1919, 1929. Come on. You go through these phases of history. I started doing research where I was getting paid for in 1967. We went through the '71 Q3 markets. You know, you look at companies in 1977 that were selling at four times EBITDA. Inflation, however, and ten-year bonds were 14 and 7/8ths. Today, they're 107. So, you know, when that changes, as John might have talked about, how does that have an impact on a multiple of companies? So you just have to deal with it.

01:24:32

And I forget who said look through the windshield as opposed to the rearview mirror. David, I think you said that before in terms of how you look at the world. You just -- you know, it's an exciting, wonderful, every day get up at 4:00 in the morning and stay up until 9:00 or 10:00 at night after the basketball game.

01:24:51

MH: I'm up at 4:00, Mario, so you could call me then. Let me ask you a couple more questions, and we're gonna go pretty fast. We've only got a few more minutes left, but there are a lot of questions about taxes. With this Democratic Senate, House, Executive Branch, how worried are you about U.S. taxes for individuals and for corporations? I'll ask John Rogers that question.

01:25:19 JR: Well, I just pick really great companies that we can own for the long run, the companies that have strong moats and strong balance sheets, terrific management teams and don't get swept up in the shorter-term themes that happen. Taxes go higher. Taxes go lower. Republican Administrations replace Democratic Administrations. The returns are very similar in Democratic Administrations than in Republican ones. So as many people talked about, to be a great investor, you've got to be able to look forward, not get swept up in the short-term noise and be disciplined about that.

01:25:55 And so I'm not worried about. We'll be fine if we can find great companies, and we'll do well for our customers thinking long term.

01:26:03 MH: All right. We have five minutes left. We're gonna go fast. These are all gonna sound like they're coming from left field, but it's just things that I was curious about and wanted to know. So I'll start with you, Rupal. Do you think we'll shake hands again?

01:26:16 RB: Of course.

01:26:19 MH: Dan, do you think we'll eat at buffets?

01:26:22 DO: I won't. Yeah, we will.

01:26:26 MH: Will home gyms be more permanent now for most people, or will they go back to the gym, David?

01:26:32 DH: I think people like the social aspects of a gym. I think they will go back to the gym.

01:26:37 MH: Staley, do you think Zoom will replace business travel, or take a big chunk out of it?

01:26:44 SC: Yes, to taking a chunk, not replace, but definitely I think some of this is secular.

01:26:53 MH: Are pandemics the new normal, Bill? We had SARS and Ebola. What do you think?

01:27:00 BM: Pandemics have been around for as long as there's been, you know, life on earth.

01:27:05 MH: Are they coming faster?

01:27:07 BM: I don't think so. I think they come at different rates and with different levels of severity, but, you know, I think they're every 10 to 15 years and then, you know --

it's like earthquakes. You know, the really big ones happen rarely and small ones happen more often.

01:27:23 DO: The more important question, Melody is, is our reaction to pandemics changed forever? That's the more important question. I mean, you look at pandemics through history. Did we do this when we had the Spanish flu? No. Did we do this when we had the Hong Kong flu in '58, in '59 or '57, whatever it was?

01:27:43 DH: '68.

01:27:44 DO: Did we do it in '68? I mean, on and on and on. That's the question.

01:27:49 MH: So Mario, day and date. So streaming has change the movie release business. Is that forever, or is that just temporary?

01:28:00 MG: We're experimenting with that. I mean, *Wonder Woman 1984* just came out, you know -- *Hamilton* I happened to watch for \$7 as opposed to \$2,000 or \$500 for a ticket. I like that. And I'm trying to figure out whether *Top Gun: Maverick* is gonna be released by Paramount. So I think there's clearly a combination that's at play. I think you should give a window to the theaters, at least two weeks or three weeks, and then maybe participate with them, but that's an open item. We're not a big fan, unfortunately, of the theater operator who hasn't done what he wants to do.

01:28:40 Secondly, I'm being solicited to have a party for all of us by renting a theater and inviting us to have a showing. So we'll see, a work in progress.

01:28:51 MH: Okay. This is gonna be very fast. I'm just gonna go around. Bill, will you get the vaccine?

01:28:56 BM: Yes.

01:28:58 MH: Staley.

01:28:58 SC: Yes.

01:29:00 MH: Mario.

01:29:01 MG: Give it to me today, right now. I can't get it. I'm not old enough.

01:29:04 MH: John.

01:29:05 JR: Yes.

01:29:06 MH: David.

01:29:08 DH: Probably.

01:29:10 MH: Dan.

01:29:10 DO: Yes.

01:29:11 MH: Rupal.

01:29:12 RB: Yes.

01:29:13 MH: Okay. Next question. Coming out of the pandemic, did you pick up any new hobbies? John.

01:29:21 JR: Well, I started piano lessons, as you know, three years ago, and I've a lot more chance to practice, and I'm almost finished with my beginning book.

01:29:31 MH: Dan, any hobbies?

01:29:33 DO: I have plenty of hobbies, but I didn't pick up any new ones.

01:29:36 MH: Did anyone pick up a new hobby during the pandemic?

01:29:40 DH: I've been golfing more.

01:29:42 MH: Golfing more, okay. This one --

01:29:43 DH: I golfed in my youth, and I've kind of rediscovered it.

01:29:47 MH: Are you fatter or thinner? Staley.

01:29:52 SC: Fatter.

01:29:53 MH: Bill.

01:29:54 BM: Thinner.

01:29:56 MH: Mario.

01:29:57 MG: I've relocated the weight.

01:30:01 MH: David.

01:30:02 DH: I think I'm about the same.

01:30:04 MH: Dan.

01:30:06 DO: The same.

01:30:07 MH: Rupal.

01:30:09 RB: Fatter.

01:30:10 MH: Okay. Next one. Did you make a New Year's resolution? David.

01:30:20 DH: Yes.

01:30:20 MH: What is it?

01:30:22 DH: Consuming less alcohol.

01:30:24 MH: Dan.

01:30:26 DO: No.

01:30:27 MH: John.

01:30:29 JR: I never make those.

01:30:30 MH: Mario.

01:30:31 MG: I never do either.

01:30:33 MH: Staley.

01:30:33 SC: I never do either.

01:30:35 MH: Bill.

01:30:35 MH: We're four for four.

01:30:38 MH: Rupal.

01:30:39 RB: Yes, connecting with more people.

01:30:42 MH: Okay. Last question. Best book you read last year. Best book. We'll go out on an intellectual note. Mario. Just the name.

01:30:53 MG: Berkshire Hathaway's annual.

01:30:55 MH: Bill.

01:30:57 BM: The thousand page biography of Abe Lincoln.

01:31:00 MH: Staley.

01:31:01 SC: *Gentleman in Moscow.*

01:31:03 MH: John.

01:31:04 JR: *Hitler's First Hundred Days.*

01:31:07 MH: Dan.

01:31:10 DO: *Executioner Song.*

01:31:12 MH: Dave. David.

01:31:14 DH: *The Body.*

01:31:16 MH: Rupal.

01:31:18 RB: *Why Nations Fail.*

01:31:21 MH: Okay. That's where we are. We're closing out. Thank you so much for all
being here. This was a fantastic conversation, and we look forward to next time. So
thanks so much, be safe, and Happy New Year.

01:31:36 MG: Nice to see you all.

01:31:38 MH: Bye.

01:31:42 M: Thank you for joining the Invaluable Insights discussion. You may now disconnect.

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