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MOHO WEBINAR DEBRIEF | **JULY 29 2023**

MOHO Webinar Debrief: Net-Net Investing w/ Brent

This week we hosted MOHO Webinar #8 with Collective member @Brent. Brent is an expert in Net-Net Investing.

You can watch the replay [here](#).

His strategy is simple:

- Buy the 12-16 cheapest stocks in the world with a ton of hair (not profitable, declining margins, etc.)
- Hold them for 12 months
- Rotate into the next cohort of cheapest companies

Brent defines “the cheapest stocks in the world” as ones trading below their Net Current Asset Value (or NCAV), a metric created by Benjamin Graham in his investing epoch, *Security Analysis*.

The goal with NCAV investing is to buy a company when it's trading below liquidation value. You could buy the entire business, liquidate every asset, pay every liability, and take cash distributions worth more than the share purchase price.

Here are my MOHO Webinar Debrief Notes ...

Net Net Investing

BOTTOM FEEDING IN FINANCIAL MARKETS



Having The Proper Business Attitude

At its core, NCAV investing is trying to buy a dirty \$5 bill for \$3.

To do that successfully, we must disregard our cherished trading/investing axioms, like the ones below (from Brent's slide deck).

TRADING AND INVESTING RULES TO IGNORE

- **Trading Rules to Ignore:** "The trend is your friend", "losers average losers", "don't catch a falling knife."
- **Investing Rules to Ignore:** "Better to buy a wonderful company at a fair price, than a fair company at a wonderful price", "buy and hold."
- **One Rule to Follow:** "Time in the market beats timing the market."

Brent's Quantitative NCAV Checklist

Brent then outlined his NCAV Checklist criteria. Think of this as a quasi-stock screening tool:

- **NCAV <67% Market Cap**
- **Not Majority Chinese business or ownership**
- **Existing Operations or Entering Liquidation**
- **Company not issuing shares**
- **Total Debt <20%**
- **Current Ratio >1.5X**
- **Market Cap <\$50MM**
- **YoY Burn Rate <15%**
- **No Banks/Financial companies, ADRs, REITs/real estate firms, Closed Funds, Mining Stocks, or Biotech**
- **Developed Economies: US&Canada, North+Western+Central Europe, Japan, Singapore, Australia+New Zealand**

The part about not investing in Chinese companies is so important. 99.99% of the time, a Chinese net-net is just a fraud. Also, why bother investing in Chinese net-nets when there are plenty in North America and Europe? It's just unnecessary country risk.

I also want to stress the importance of proper diversification. The best way to play Net-Nets is to own a basket of them (Brent holds 12-16) since any one net-net could go to zero (hence the crazy asymmetry).

What To Watch & What To Ignore

As mentioned earlier, NCAV investing requires an inverse approach to what you're probably used to at Macro Ops. For example, we **DO NOT** want positive earnings or dividend payments.

The best-performing NCAV stocks lose money.

Brent's strategy leverages three catalysts to bridge the gap between NCAV and the share price:

- 1) **Pure cheapness**
- 2) **Insider Buying**
- 3) **Shareholder Activism**

I enjoyed Brent's presentation so much that I bought Tobias Carlisle's book *Deep Value*. Be on the lookout for a Book Notes piece in the coming months.

Where To Learn More

If you enjoyed Brent's presentation and want to learn about net-net investing, check out these resources.

- 1) [Deep Value, Tobias Carlisle](#)

Tobias wrote the modern-day Bible on Net-Net Investing. It's not long and should take you a week to read.

- 2) [James Montier Net-Net Investing Whitepaper](#)

This research takes Ben Graham's Net-Net approach and tests it on global stocks from 1985 - 2007. The results are remarkable (see below).

