Active Voice

One quirk of value investors like Murray Stahl is their enthusiasm for turbulent markets. “I think value is on the verge of an enormous renaissance,” he says.

If you ask the right question to Murray Stahl, co-founder of Horizon Kinetics LLC, settle in for the answer. It will be in-depth, thoughtful and likely a bit surprising, all of which describes the eclectic and contrarian investment approach he’s long employed successfully at the now $6 billion (assets) firm. The Paradigm mutual fund he has managed since 2000 has earned a net annualized 10.5%, vs. 5.7% for the S&P 500.

Avid students of the impact passive investing is having on active management, Stahl and fellow Horizon Kinetics co-founder Steven Bregman specifically target ideas that are relatively ignored by index funds and ETFs. Today they’re finding mispriced value in such areas as security-related information systems, shipping, mining, oil-field services, and energy exploration and development.

Horizon Kinetics
Murray Stahl [l], Steven Bregman [r]
Investment Focus: Seek long-term price inefficiencies caused by the market’s short-term focus, indexing obsession, and neglect of dormant but valuable assets.

Investor Insight: Horizon Kinetics
Bucking conventional wisdom to find mispriced value in Texas Pacific Land Trust, CACI International, Civeo and Clarkson.

Investor Insight: Seven Canyons
Searching high and low for unseen upside and finding it today in Game Digital, Sarana Menara, Photo-Me, Sony and Walt Disney.

Uncovering Value: Interactive
Looking to turn a positive personal experience into an equally or more positive investment one.

Uncovering Value: Alaska Air
Enthusiasm for U.S. airlines hasn’t embraced this long-time standout. A missed opportunity?

Editor’s Letter
Items of interest provoking thought (or maybe slight despair).

Investment Highlights

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Bioventis, Bitcoin Investment Trust, Blackrock, Church & Dwight, Dish, Network, Exxon Mobil, General Electric, McDonald’s, Netflix, New York Times, Roku, Subsea 7, Tesla, Wayfair, Wendy’s
Investor Insight: Horizon Kinetics

Horizon Kinetics’ Murray Stahl and Steven Bregman explain how the rise of passive investing has impacted their investment approach, what can go wrong investing with owner-operators, their current take on GE, why they believe in bitcoin, and what they think the market is missing in Texas Pacific Land Trust, CACI International, Civeo and Clarkson.

You’ve always been firm believers that “time arbitrage” was a key driver of value-investing success. Has your conviction on that wavered at all?

Murray Stahl: Absolutely not. Our fundamental approach tries to capitalize on the overwhelming need for most professional investors to achieve short-term and relative-return-based results. The collective short-term focus can create long-term price inefficiencies, because rewarding events and outcomes that are three to five years in the future – even if they’re visible and of large magnitude – doesn’t compute for the average manager. That can create ignored and under-analyzed securities that are mispriced.

Steven Bregman: A series of premia are applied to stocks for various characteristics. Investors like trading liquidity so they can trade in and out as needed. They like rising revenues, expanding margins and stocks that have been going up, increasing the likelihood the stock keeps going up next quarter. They like analyst coverage because they want the access to information and appreciate that management is sensitive to analyst questions. They like stocks that aren’t overly volatile.

All of that results in a premium being paid for stocks that exhibit characteristics pointing to outperformance in the short-term, because that’s the basis on which managers and analysts are rewarded or retained – or not. The flip side, of course, is that there is a disutility for stocks without those characteristics. It could be the P/E appears high because there’s an important asset or business line not earning anything at the moment. It could be there’s a negative cycle that doesn’t appear to be turning any time soon. Maybe the stock doesn’t have institutional-strength trading liquidity or doesn’t have much analyst coverage. Stocks that lack the characteristics of those perceived more likely to outperform on a relative basis in a short time frame can trade at very deep discounts. We make use of that and are willing to take the time risk. The typical active investor isn’t.

We’re not contrarian just to be contrarian. But it’s a marketplace and it’s all about relative supply and demand. Whatever everybody else is interested in for the moment can’t be at a good price.

ON MARKET EFFICIENCY: We propose that the price discovery method has been broken by all of this inflow into passive investments.

You have done a lot of research and thinking on the impact of passive investing on the efficiency of the market. How has that impacted your investing approach?

SB: Indexation has taken over public equity-market investing. There are a wide range of estimates, but we think it’s reasonable to assume something on the order of 35% of the equity market value in the U.S. resides in passive investments. The marginal trade makes the price, and the marginal trade in U.S. stocks for a good half decade now has been the index buyer.

It’s moved way beyond run-of-the-mill indexes and now we have any number of more esoteric ETFs, based on geography, based on industry, based on factors like growth or value or momentum. They all have a rule set for what they include in their portfolios, and you can imagine the same stocks keep showing up in many of them. Stocks that have trading liquidity. That have long track records. That meet minimum requirements for growth or nominal valuation metrics or balance-sheet strength.

We propose to people that the price discovery method has been broken by all of this inflow into passive instruments, which then puts kind of an automatic bid on what turns out to be maybe a few hundred large, highly liquid stocks. Look at something like Exxon Mobil [XOM]. From the beginning of 2012 through June of this year, Exxon Mobil’s revenue per share fell 40%. It’s EPS, normalized for the tax-reform benefit, fell 64%. Its long-term debt increased 162%. The price of oil fell 26%. You might think that would have wrought havoc on the company’s share price, but you’d be wrong. The share price was exactly the same at the start of 2012 as it was at the end of June.

Take another mature-company example, McDonald’s [MCD]. Its revenue actually decreased from 2008 to 2017 and its net income over that period increased by about 20%, not even 2% per year. Its long-term debt almost tripled. The share price, however, increased by 175%, as the P/E multiple accorded the stock went from just under 17x to nearly 26x. Can anyone credibly argue that McDonald’s growth prospects are that much better now than they were 10 years ago? We think not and think the higher valuation – and what we consider inefficient pricing – in stocks like this has to do with automatic buying driven by inflows into passive vehicles.

In the same way that the rule set of passive funds is an inclusion system, it’s also an exclusion system. So to your question on how it has impacted our approach as a value manager who believes in looking where other people aren’t: There are index-centric companies that are in constant demand due to their liquidity and other characteristics. Then there are all the other companies that have effectively been rendered invisible because they’re not liquid enough or aren’t the right corporate
shape. We spend most of our time on the latter, which are less influenced by the supply/demand umbrella of the indexes.

I’d also add that in the current environment there’s an unusual degree of systemic risk to which people who actually or effectively index are exposed. There is still large valuation risk due to near-record-high equity valuations. Interest rates are still at very low levels. Operating margins in S&P 500-type companies are at record highs. The S&P 500 is inordinately weighted to the “FAANG” stocks and is filled with mature but highly valued companies like McDonald’s, Exxon Mobil, Procter & Gamble [PG] and Coca-Cola [KO].

We look at all that and see a significant amount of systemic risk, including from a reversal of indexation flows. We want to be as far away from all that as possible. We try to own idiosyncratic companies whose financial results and returns will be specific to their own circumstances. They might or might not do well, of course, but if they don’t it will be on their own recognition and not because of things like index flows or changes in interest rates.

Give a representative example or two of idiosyncratic situations that interest you.

SB: I’ll give you one first that has mostly played out, which is Wendy’s [WEN]. Five or six years ago – at $5 to $6 per share – it looked expensive on a P/E basis, but that was because it had very substandard earnings. Compared to its peers it had moribund sales growth, less attractive stores, an outdated menu and the lowest margins.

At the time we got interested, the company had initiated a turnaround plan that involved selling company-owned stores to franchisees, revamping the menu and reformatting existing restaurants. All of that initially hurt the financials, by the way, but with the expectation of higher profitability down the line. They started first with company-owned stores and with that proof of concept planned to take it broadly to the franchisee base. That’s when we looked closely and came to the conclusion that while it would take them at least five years to work through it, we could see that earnings could be significantly higher and that even if margins approached passable relative to peers the stock would be much higher. It might be like watching steel rust because it would take time, but we thought our return if that happened would be very attractive.

They’re not yet done with the overhaul, but the thesis has played out quite well and we’re using Wendy’s now as a source of funds when we find cheaper things with more upside optionality to buy. [Note: Wendy’s shares traded recently at around $18.] They’re getting closer to being more like an average fast-food chain and that’s not what we want to own.

A current idea consistent to the counter-indexation theme would be Subsea 7 [Norway: SUBC]. It is controlled by an owner-operator, Kristian Siem, and provides engineering systems and services to big energy companies operating deepwater offshore rigs. First, it’s based in a country, Norway, that is underrepresented relative to the size of its economy in the global indexes. It’s in an industry underrepresented relative to its size in the global indexes. It’s also in one of the very few energy-related sectors that hasn’t started to recover from the crack in energy prices five years ago. All of that makes SubSea 7 at least potentially interesting to us.

When we look further we find that while the backlog is less than half what it was five years ago, the company has been generating positive free cash flow. It has cash in excess of all debt, and net current assets in excess of all liabilities. It has an owner-operator who knows what he’s doing and has been able to make some strategic acquisitions. It has a rapidly growing business around offshore wind turbines.

At today’s price [of 93.50 Norwegian kroner], the stock trades at a discount to tangible book value and at a single-digit multiple of what is extremely depressed free cash flow. So without what we could consider existential risk, we hold a permanent call option on a recovery in an industry we believe will recover. Knowing exactly when is difficult, but we believe it will happen over a time frame that would result in an excellent rate of return on the stock. The market doesn’t need to get more expensive for us to do well with an investment like this.

You might ask, “Aren’t all companies like this ostensibly cheap because the industry is depressed?” The answer is no. Look at companies like Schlumberger [SLB] or Halliburton [HAL]. They go for more than 5x tangible book and 25x free cash flow. Same industry. Same downturn. That highlights the difference between index-centric pricing and pricing for something that is orphaned by the indexes.

Contrarians that you are, somehow we’d assume you’ve looked at General Electric [GE], which as it happens was not long ago removed from the Dow Jones Industrial Average. What’s your take on that?

MS: It’s a classic Graham & Dodd sum-of-the-parts. Today’s market cap is around $65 billion. There’s a crown-jewel business making aircraft engines that earns some $6 billion in annual operating income. We think that justifies the market cap right there.

So then you have all these other businesses and a lot of debt. Roughly $110 billion of the $170 billion in debt resides in GE Credit and is non-recourse to the parent company. As they unwind GE Credit they may or may not take any money out of it, but we don’t believe it’s a stretch to assume they can at least repay that debt. That leaves $60 billion of GE corporate debt against the asset value of the rest of the company. There’s a healthcare business with robust earnings. There’s an ownership stake in Baker Hughes [BHGE] that at current market prices is worth about $15 billion. There’s a renewable-
energy business with not inconsiderable operating income. There’s a transportation business that is merging with publicly traded Wabco Holdings [WBC]. Even the power-systems business that used to make a lot of money but now doesn’t is worth something.

Generally speaking, if we add up the sum of the parts, they could pay down all that $60 billion in debt and still have GE Aviation. We don’t know exactly what they’re going to keep and what they’re going to sell – and none of this is going to happen overnight – but we don’t think it’s that difficult to demonstrate value here well in excess of the current market value. There’s forced selling both because it’s out of the Dow and, after slashing the dividend, every income-oriented ETF.

We’re not hearing from you as much about a focus on high-quality businesses as we usually hear today.

**MS:** Theoretically that would be fabulous. Of course people might differ on exactly what a high-quality business is, but if we want to be a value investor and the bulk of our competitors say that’s what they’re looking at, we think it’s unlikely we’re going to have unique insight that the typical hard-working, intelligent value manager is not going to have.

If someone asked me for an example of a quality business, I would say Church & Dwight [CHD]. Great brands like Arm & Hammer and OxiClean, loyal customer base, very capable management. The company itself forecasts it can grow maybe 6-7% per year, which is reasonable. But the stock trades at close to 27x earnings. Why would I pay 27x earnings for a business like this, as meritorious as it might be? It’s not inconceivable to me that the stock could trade at 14x earnings, with pretty much infinite call options on what they could make happen with the land. Maybe people wanted to develop it. Maybe there was oil there that could one day be economically extracted. We didn’t really know, but we liked the potential odds.

What’s changed is that some of the options went heavily into the money. A lot of hydrocarbons have been found in their areas of Texas, including the Permian Basin, and technology improvements mean these reserves can be exploited for decades. That accrues directly to the benefit of the trust, which sells land from time to time if it wants, gets royalties on oil and gas extracted from its properties, earns easement fees to cross its properties, and sells water, which is a vital and increasingly costly input in the drilling process.

You wrote recently that the trust “appears to be at an inflection point in its business development, its profitability and its capital-allocation decisions.” Please explain.

**MS:** One key driver on the business-development front is the water-services business. There are significant needs pertaining to water supply and disposal for the companies drilling on and near TPL’s land, and with the trust owning the water below ground on its acreage it is well situated to help customers meet those needs. TPL last year increased its number of full-time employees from 10 to 32, most of which are devoted to expanding the water franchise, which earned a 64% net profit margin last year. This business has the potential to be even larger than the existing oil-royalty and land segments.

Another positive for the business is a significant increase in royalty revenue that should result as new pipeline and gathering capacity comes on line in the region. No one expected West Texas to be as prolific as it is, so there are a large number of drilled but uncompleted wells that should start producing – and paying royalties to TPL – once the oil and gas can be more effectively gathered and shipped out. As good as production volumes have been, as infrastructure capacity expands over the next couple of years they will increase significantly more.

With respect to capital allocation, an increasingly important question for TPL is how it will deploy its increasing earnings. The trust has been repurchasing and cancelling shares for 120 years, but there’s a limit to the number of open-market purchases that can be made when average daily trading volume is less than 20,000 shares. With capital-expenditure requirements limited, it’s not a stretch to conclude we’re going to see a big increase in dividend payments. The dividend yield is still very low on a $600 share price, but in February of this year the Trustees raised the

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**ON INVESTING IN QUALITY:**

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**MS:** We estimate what we think earnings can be four to five years out, apply what we consider to be a reasonable multiple on those earnings, and then discount the result back to today using a 20% annual rate. If that’s less than the current price, implying a discount rate in excess of 20%, that’s something we’ll look at closely.

You first started buying stock in Texas Pacific Land Trust [TPL] in 1995. What’s the investment case for it today?

**MS:** The trust was created in the late-19th century as part of a railway bankruptcy reorganization in which bondholders were given an interest in approximately 3.5 million acres of land located in western Texas that had been put up as collateral against the bonds. The governing document requires any income earned from things like easement fees, grazing fees, oil, gas and mining royalties, or periodic land sales to be applied to the repurchase of shares and to pay dividends.

When we first bought into this in 1995, we basically signed on for a 5% or so return from stock buybacks and the dividend, with pretty much infinite call options on what they could make happen with the land. Maybe people wanted to develop it. Maybe there was oil there that could one day be economically extracted. We didn’t really know, but we liked the potential odds.

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regular dividend from 35 cents per share to $1.05, and paid an additional special dividend of $3 per share. One doesn’t require a graph to infer the near-term slope of the line. We wouldn’t be surprised if over time TPL qualified for a dividend ETF or a REIT ETF.

As an aside related to that last point, it’s a fascinating comment on the separate reality (or unreality) of the indexation-based investment world that there is not a single published Wall Street-analyst earnings estimate for TPL. It’s not held by a single growth, momentum, energy, real estate or low-volatility ETF, even though it’s qualitatively and statistically highly suitable to any or all of those.

The share price, now just under $600, swooned in recent months as oil prices fell. How attractive do you consider the stock from here?

MS: The trust has increased earnings at more than 50% per year over the past five years. While I would not be so bold as to say that will continue, unless oil prices collapse from here and stay down, we believe there’s still great growth potential for earnings. Just from earnings growth over the next five years we very much expect to at least hit our 20% target for annual shareholder return. This is still the largest holding in a variety of our strategies.

Describe the upside you see today in government information-systems contractor CACI International [NYSE: CACI].

MS: I’ve been involved in this stock, off and on, since 1982. The company provides information technology and professional services predominantly to the U.S. federal government and federal agencies. Two-thirds of total revenues are from the Department of Defense and another quarter are from federal civilian entities such as the Department of Homeland Security and the Justice Department.

The systems and services provided focus on intelligence, data integrity, command and control, cyber security, and surveillance and reconnaissance. Demand is mostly created by the increasingly complex systems and information environment in which governments and businesses operate, and the need to stay current with emerging technology while increasing productivity.

There is some cyclicality to the business depending on defense-spending budgets – many programs a company like CACI might work on were denied full funding during the prior two Washington administrations, for example – but over time the growth has been secular because of the type of work the company does, making the financials quite resilient. Between 2006 and 2009, when revenues of S&P 500 companies declined by 4.6% on a per-share basis and earnings declined by 42%, CACI’s revenues rose by 59% and its earnings were up 8%. Looking at a longer period, company revenues have increased 10% per year since 2006 and earnings by 13% per year. For the S&P, annual revenue and earnings growth, respectively, has been 2.7% and 1.6%.

What would the market be missing here?

MS: Because of the secrecy surrounding the services provided, the government pre-
fers to only deal with a handful of companies, which limits competition relative to what the average industrial or technology company faces. That’s the good news, but the downside of all the classified work is that there’s not much specific detail on the pipeline. Also, the way defense procurement works, very often the company has to spend heavily on people and technology infrastructure in advance of projects generating revenue. So when the backlog is growing for CACI – which you can see clearly that it is now – the company can underearn relative to what is going to be the case. Given the market’s time horizon, I’ve seen that at times create opportunity in the stock over more than 35 years.

What upside do you see from today’s share price of around $168?

MS: The shares trade at 17x the free cash flow generated in the fiscal year ending in June 2018. That’s less than the market’s trailing P/E ratio, much less its free-cash-flow multiple.

This company in the next five years has very reasonable prospects of growing 10-15% per year. Even with the same valuation that would provide an acceptable return. If the valuation improves in recognition of the growth and stability of the business, the return would be even better.

The shares of Civeo [CVEO], which provides accommodations for workers at remote drilling and mining operations, now trade at $1.80, down 60% from their July highs. Why do you see opportunity here?

MS: This is an interesting business. When commodity prices are low for resources like oil, natural gas and metallurgical coal, the business falls apart as producers cut back on capital expenditures for development projects and infrastructure buildouts that are the key drivers for Civeo. But while the company’s revenues can fall dramatically – they were down almost two-thirds from 2012 to 2016, for example – the business model is such that even in the worst of times the company generates free cash flow. That’s usually not obvious to casual observers, because GAAP earnings can look pretty bad.

Our investment case here is straightforward. Scenario one is that the business never gets better from today. In that case, we believe it can earn $35 to $40 million in free cash flow per year, resulting in a low-teens free-cash-flow multiple on the current market cap of around $300 million. In this scenario the company can use its free cash flow to pay off debt, which if you do the math would result in much of the debt being retired and free cash flow increasing due to the interest savings. You could call this failure mode, which we estimate would result in something like a 6% or so annual return on the stock.

Success mode, on the other hand, is that commodity prices return to where they were in 2012. That’s not an outlandish assumption. In 2012, Civeo generated cash from operations of $433 million and free cash flow – after mostly growth-related capital spending – of around $120 million. (Remember, the current market cap is $300 million.) With the acquisition earlier this year of a company called Noralta Lodge, which focuses more on year-round employees and broadens Civeo’s asset footprint, the capacity for free-cash-flow...
INVESTOR INSIGHT: Horizon Kinetics

Civeo (NYSE: CVEO)

Business: Provider of temporary accommodations and hospitality services primarily to commodity producers operating in remote areas of Canada, the U.S. and Australia.

Share Information (@11/29/18):
- Price: 1.81
- 52-Week Range: 1.72 – 4.64
- Dividend Yield: 0.0%
- Market Cap: $304.0 million

Financials (TTM):
- Revenue: $453.5 million
- Operating Profit Margin: (-13.2%)
- Net Profit Margin: (-25.7%)

Valuation Metrics (@11/29/18):
- P/E (TTM): n/a
- Forward P/E (Est.): n/a

Largest Institutional Owners (@9/30/18 or latest filing):
- Horizon Kinetics: 24.8%
- Fidelity Mgmt & Research: 10.3%
- Renaissance Technologies: 5.7%
- Dimensional Fund Adv: 3.1%
- Prescott Group Capital: 2.6%

CVEO PRICE HISTORY

THE BOTTOM LINE

Even in "failure mode" the company's business model generates $35 to $40 million in annual free cash flow, says Murray Stahl, a scenario he would expect to result in a roughly 6% annual return on the shares from here. In success mode, which means returning to past more-positive commodity-price environments, he says the shares could rise six-fold.

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ther. For the time being, I’m afraid there’s not enough common interest in moving from the status quo. I think there’s a good chance it gets worse before it gets better. But it eventually will get better.

Why not wait until it starts to get better?

MS: In situations like this I focus more on whether the stock is meeting my return objectives based on my five-year outlook. If things start to improve on the trade front, I obviously won’t be the only one to see that.

In general, in this case I believe that within two years we’re going to see more normalization in the shipping market. One driver of that should be international treaties kicking in at the end of the decade that will ban vessels burning high-sulphur diesel fuel, which we think will result in a fair amount of scrappage. If shipping demand in the near-term falls as a result of trade conflicts, that will also accelerate supply being taken out of the market. That all should help further alleviate the supply/demand issue, which little by little is going on anyway.

At today’s £23.60 price, how cheap do you consider the stock?

MS: During periods of depressed earnings these types of companies typically trade at high multiples of revenues, earnings or book value. People recognize there is a cyclical to it and pay extra for the current below-normal results. For the first time in a long time, that’s less the case today for something like Clarkson.

Quite simply, if the pricing environment gets better and normalizes, the company’s earnings within five years could go up three- or four-fold from today. Maybe the stock doesn’t go up quite that much, but it could certainly double or triple. That would comfortably meet our 20% discount-rate hurdle going out five years.

You publish The Devil’s Advocate Report, which presents bearish ideas in high-profile stocks. What’s something you’re finding interesting in that vein today?

SB: We often find opportunity in companies that expand to a degree that the law of large numbers would argue that their market share and/or market size has begun to reach limits. BlackRock [BLK] has been collecting assets hand over fist as net inflows into its index funds have exploded. Those inflows have been funded by outflows from active management, a dynamic that is finite and which gets interesting as the flow into index funds slows or reverses. The marginal trade shifting from the index buyer to the index seller would not be positive for BlackRock.

Their core business is also more competitive and their fee structure – and therefore their profitability – is under pressure. But even with the shares [recently at $423] selling off this year, the valuation is high. The stock is also an index darling. We just think the business is running out of room.

A top-10 holding of your Paradigm mutual fund at the end of the third quarter was Bitcoin Investment Trust [GBTC], a traded vehicle invested entirely in bitcoin. How is that a value investment?
MS: I know a lot of people think bitcoin is absurd, but the market capitalization of every bitcoin mined so far is around $80 billion. While bitcoin issuance can grow, unlike with fiat currencies the total supply is fixed. Odds are I’m not right, but my basic case is that just from the demand of people who believe bitcoin is a more reasonable store of value, why can’t its market value rival that of the most questionable fiat currencies in the world?

Bear with me here. If you add together the current market value of the Brazilian real, the Iraqi rial, and the Russian ruble – all starting with “r” and all questionable currencies – you arrive at something well over $2 trillion. As custody problems for holding cryptocurrencies are solved – and big and powerful financial intermediaries are working on it – why can’t the market value of bitcoin rival any one of those or even all three together? If that happens, I’ll never find a stock with a rate of return close to what bitcoin would provide. So if you make it a 1-2% position, the worst that can happen is you lose every penny. The best that can happen is you get an astronomical rate of return. The risk/reward is better than anything else I can find.

Can you generalize about where you’ve tended to make mistakes over time?

MS: One quality of a business we consider a predictive attribute suggestive of attractive future returns is it being run by an owner-operator. Think Warren Buffett and Berkshire Hathaway. Or John Malone and his Liberty enterprises. While we think this attribute tilts the odds in our favor, it’s obviously not foolproof. In the case of Sears [SHLD], for example, our thesis was that management, led by Eddie Lampert, was going to close the stores and monetize the real estate and that the investment result for us would be highly profitable.

We misjudged the intentions of management, which sold some assets but not enough relative to the challenge faced. I blame myself for that more than anything else. Another mistake we made was in misjudging the speed with which technological disruption in retail was happening. That not only changed the economics of Sears’ core business more quickly than we thought, it also made the real-estate-monetization aspect of the story less viable.

SB: We pay attention to signs that owner-operators are distancing themselves from the business. Sometimes they decide they’ve taken it as far as they can, or that conditions are changing, or that other interests are taking precedence. Generally, if we see that they’re stepping back, we want to as well.

ON OWNER-OPERATORS:
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In the case of an Eddie Lampert or a Ned Goodman at [Canadian holding company] Dundee Corp. – another mistake – we couldn’t see any sign they were stepping back. But we shouldn’t have drawn comfort from that and instead put more emphasis on what they were doing now than what they’d accomplished before.

Speaking of owner-operators and disrupted industries, what’s your current take on Charlie Ergen and Dish Network [DISH]?

MS: This one we’ve largely sold. They have a significant dormant asset in the wireless spectrum they’ve accumulated over the years, but we’ve concluded that if the traditional satellite-TV business deteriorates too much or too quickly, even assuming they get a nice price for the spectrum, they may run into difficulty servicing their debt. I understand management is waiting for the right price for the spectrum, but there’s time pressure here and I’m not comfortable taking the chance he’s right. I wish I would have made the same decision quite a bit earlier with Sears.
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