



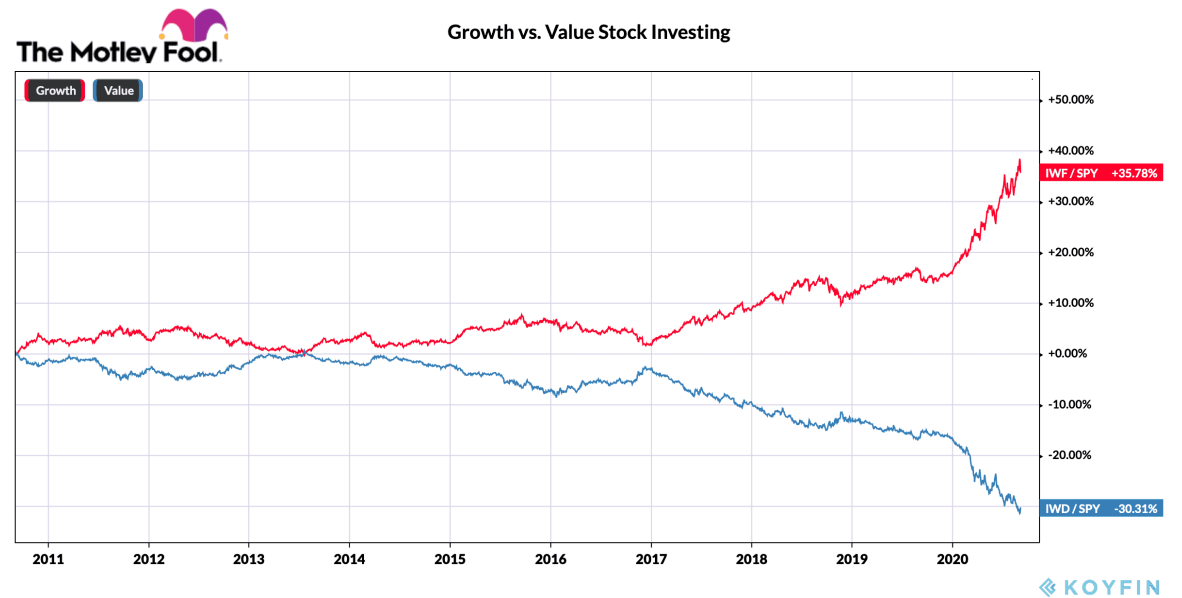
Value Investing is Alive and Well

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Value Performance Has Been Awful...



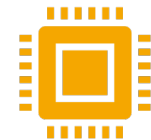
Traditional Value Investing is Troubled



Screening for low price to book value or low price to earnings worked for decades and now doesn't



Why?



Simplistic value investing is much more difficult in a world with computerized and algorithmic trading and a changing, more digital economy



But the Soul of Value Investing Still Works

- The value philosophy: Buy businesses for significantly less than their intrinsic value
- Three ideas on how to apply a value philosophy in today's market:
 - Look for value opportunities in growth sectors like technology
 - Go to areas of the market with less competition such as small caps and international stocks
 - In a passive investing dominated world, look for companies that don't screen well but a deep dive research tells a different story

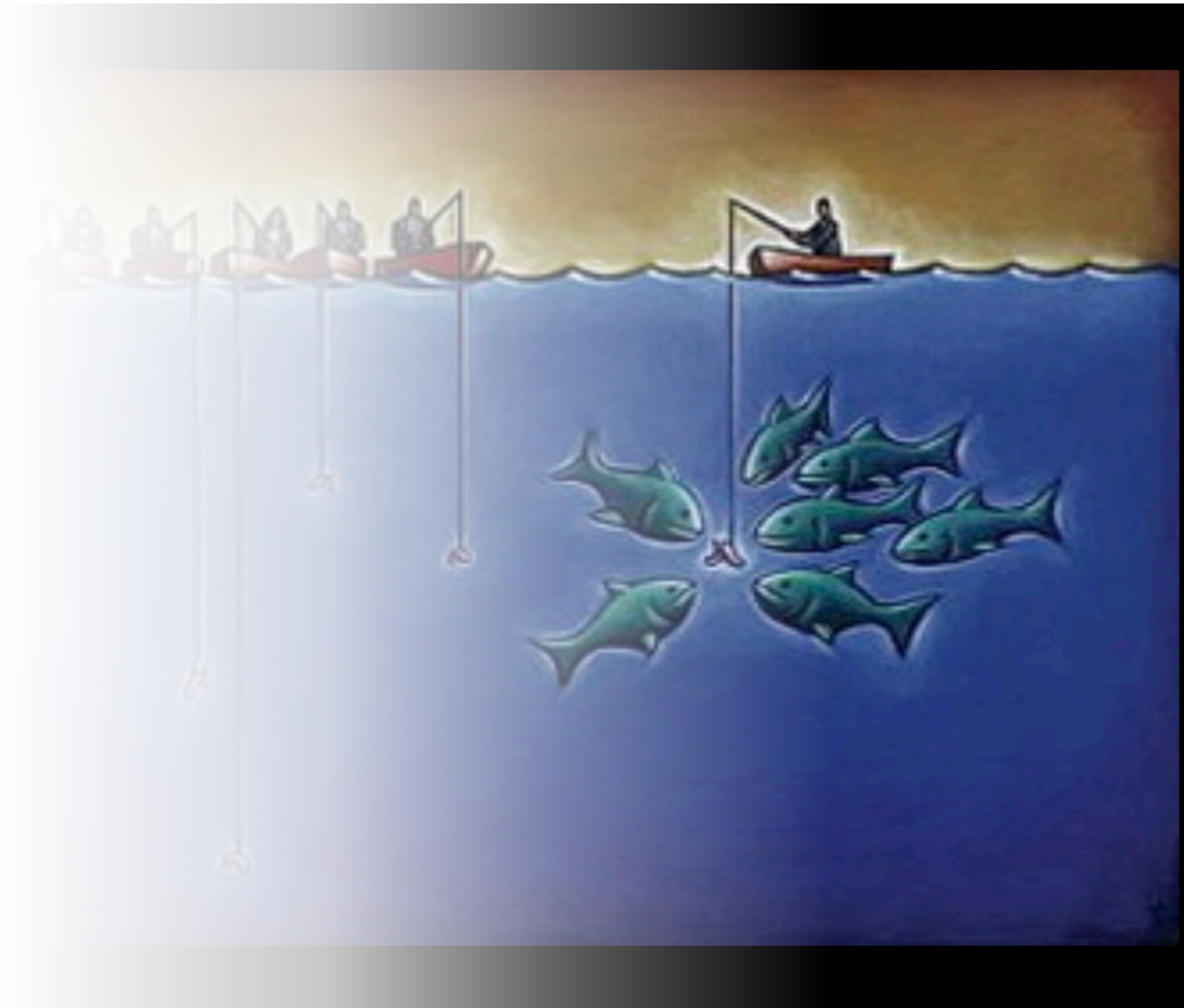
Apple and Microsoft Were Once Value

- Technology is a growth sector and you can find value there
- In 2016, Apple traded at 6 times cash flow, before it went up 4X
- Microsoft in 2013 traded at 10-12 times earnings before it went up 5X
- What happened?
- Perceptions changed after an understanding that their business models were changed



Fish Where the Fish Are

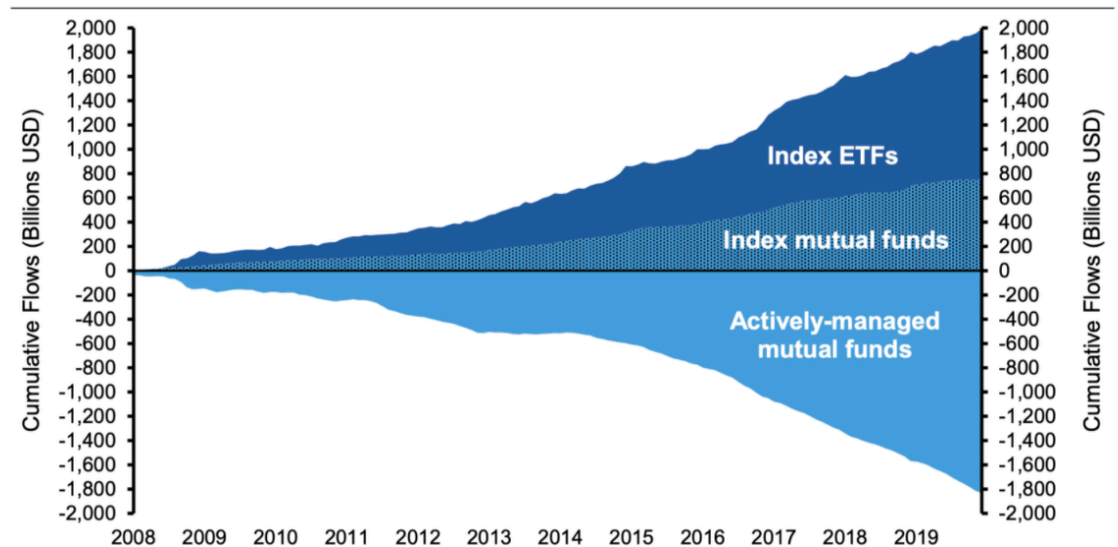
- International stocks sell for much lower multiples than US comps and less competition
- Small caps have fewer eyes on them, greater chance for mis-pricing
- Look at out of favor companies and/or out of favor industries



Passive Investment Boom Is An Opportunity

- If money is on auto-pilot, there is a much greater chance to find mispriced equities
- Money outflow from active managers means there is less competition
- Look for companies that are doing well that don't screen well or aren't in the indices

Exhibit 2: Cumulative Flows from U.S. Active to Passive Funds, 2008-2019



Source: Investment Company Institute.

Note: U.S. domestic equity funds; Mutual fund data is net new cash flow plus reinvested dividends; ETF data is net share issuance and includes reinvested dividends.



Mama Mia Nintendo is 2013 Microsoft!

- Nintendo (Japan: 7974, OTC: NTDOY) sells for 11 times earnings, excluding cash
- The company is undergoing a change similar to Microsoft in 2013, and is starting to take advantage of online subscriptions and digital game sales
- Thanks to its location in Japan, its valuation is much lower than if it was a US based tech company
- Nintendo is also trying to transform its Switch console into an “iPhone like platform,” in which you upgrade your Switch every few years

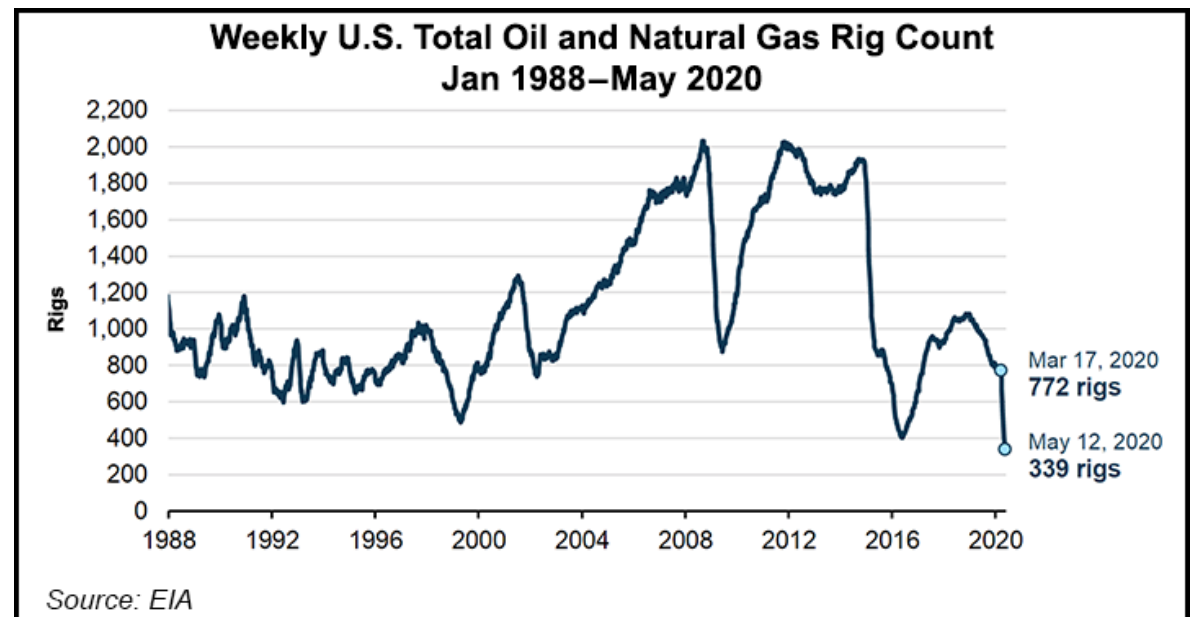


The Oracle of Lincoln, Nebraska leads Nelnet, the Quiet Technology Compounder

- Nelnet (NYSE: NNI) doesn't screen well as it looks like a student loan finance company, but is actually a very exciting education tech company with a large student loan portfolio
- Business is changing due to its student loan book rolling off
- Chairman has compounded book value at 17% annually for 15 years.

Opportunity in Small Cap Energy

- Black Stone Minerals (NYSE: BSM) is the largest publicly traded royalty trust
- Stock pays a dividend of 9%+ and you get paid while you wait for energy prices to normalize
- Strong emphasis on natural gas
- Heavy insider ownership



Microcap Franchise Stock



- HireQuest (NASDAQ: HQI) is a franchise staffing company with 50% operating margins with strong management
- Illiquid stock because management owns 62% of the company
- Potentially trades for 6 times normalized earnings, excluding cash and notes
- Primed for a surge in earnings on a return to normal when vaccines arrive next year

Value in Cannabis

- Due to uncertainty around federal legal rules, a lot of investors cannot invest (i.e. Pershing and Robinhood)
- AYR Strategies (OTC: AYRSF) trades for 6 times next year's cash flow
- Comps sell for 9-12 times next year's cash flow



Mindset Value Fund Philosophy



Invest in undervalued, misunderstood, or unfollowed publicly traded securities that offer limited downside over the long term, but also have an uncertain upside.



The portfolio will consist of stocks that offer a “heads I win, tails I don’t lose” strategic approach to investing.



We are focusing on hitting singles and doubles, but just might have a shot at hitting a homerun, but whatever we do, we don’t want to strikeout.

For more information

- Check out my newsletter: <https://mindsetvalue.substack.com/>
- Read my more in-depth reports on
 - Nelnet: <http://www.mindsetcapital.com/wp-content/uploads/2020/06/Nelnet.pdf>
 - HireQuest: <http://www.mindsetcapital.com/wp-content/uploads/2020/09/HireQuest.pdf>
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