

## **Ep. 215: Bryan Colangelo, Quarterly Earnings, Mobile Payments & more! - Transcript**

**Tom Mullooly:** Welcome to the Mullooly Asset Management Podcast. This is Tom Mullooly and I'm here with Brendan.

**Brendan:** Hello. How's everybody doing?

**Tom Mullooly:** This is episode Philadelphia.

**Brendan:** 215.

**Tom Mullooly:** 215 area code. We did Dallas last, and then 216, I think is Cleveland, but we'll have to get our game plan down in terms of where our road show goes next. But this episode 215. 215 is the area code for Philadelphia. Before we get into all of our topics for the weeks, let's just stay with Philadelphia for a second, because we were just talking about this before we turned the mics on.

Something that's in the news today as we're recording this, but really is a good reminder for people in our industry. Bryan Colangelo who is now the former general manager of the Philadelphia 76ers had to resign today, primarily because a website called the Ringer, discovered about a week or so back that Colangelo was tied to several different anonymous Twitter accounts. I used to call them egg accounts, but you call them burner accounts.

**Brendan:** That's what everybody's calling them.

**Tom Mullooly:** These throw away accounts. But apparently these throw away accounts had really good information. They were disclosing some sensitive information. They were also trashing some of the players. Not cool.

**Brendan:** No, it's a silly way to lose one of the best jobs in the world. If you're a GM of a sports franchise, I mean how many ... Like in each league, there are roughly what? Like 30 teams, baseball, football, basketball, whatever we're talking about. You have one of the coolest jobs out there, I think.

**Tom Mullooly:** You don't have a hard day, ever.

**Brendan:** Oh, sure. It's all relative. I'm sure like-

**Tom Mullooly:** You lost a game.

**Brendan:** That's his livelihood though. I'm sure he does have bad days just like everybody else across the spectrum. But that's a pretty cool job that you're very well paid for, and that's such a silly thing to lose your job over, I think.

**Tom Mullooly:** It is. Here's the takeaway for me, as I'm reading the story is, his wife was the owner of the other burner accounts, so he was sharing sensitive information, which he shouldn't

do. Sometimes we get access to sensitive information, which we should never share. This stuff was being put out on social media.

In our line of work we have to remain compliant. Everything that we put out on social media, or out on the web is archived for compliance purposes. For some historical archives we need to keep all of these things. We actually have an outside service that does this. It's so important for business leaders and people in our line of work to remain sensitive to talking about certain situations that we really shouldn't be talking about.

**Brendan:** Other people's privacy.

Another reason we archive the tweets is so I can go back and see how much self-loathing I have as a Mets fan. They've got all those in there too. Those will be funny to return to in a couple years.

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**Tom Mullooly:** Let's just stay with the sports vein for one more moment. Another story today, Amazon today scored the rights to the English Premier League, the soccer league. It's not a big deal. It's 20 games. They can only show it in Britain, but watch out ESPN, owned by Disney. Last year, Amazon through Amazon Prime was able to show 10 of the Thursday night NFL games. Here we go.

**Brendan:** I already have Prime, so if they're going to continue giving me stuff under my subscriptions, sure. Weren't people yesterday talking about Amazon getting into homeowners insurance?

**Tom Mullooly:** Right.

**Brendan:** I agree with a lot of the takes I saw, which were, would you buy homeowners insurance on Amazon? Yeah, I'll buy that on the computer.

**Tom Mullooly:** I would.

**Brendan:** Is that like a fun ... I'm not going to miss buying homeowners insurance. Just being honest. It's not bad. It's not good. If you can make it simpler, which I'm sure they would, yeah, I'll do it. It's not as if this company ... I don't know. Would they be insuring it, or would they be offloading to an actual insurance company? But either way-

**Tom Mullooly:** ... offload it to Geico.

**Brendan:** If they're offloading it to an insurance company, you're no worse off than going through the insurance company you are now. If it's Amazon, then they have plenty of money. I feel pretty good about them fulfilling their promises for insuring my home.

**Tom Mullooly:** I'd be okay with them standing behind their promise to insure my home, but if they're farming it out to other local brokers then it's SelectQuote all over again.

**Brendan:** It would be price sensitive. I'm not going to go there on Amazon and pay extra for it, but if they can give me something competitive to what I have and simplify the process, I'll look into it.

**Tom Mullooly:** I'm in. Sign me up.

**Brendan:** But yeah, they're going to put these games on there. I'm watching shows on Amazon Prime, on my TV from streaming.

**Tom Mullooly:** What does it mean to companies like Fox who have a lot of money tied up in sports, and ESPN, owned by Disney? I'd be worried.

**Brendan:** If we had an answer then we could share with them, because I'm sure they're all thinking the same things. But, are they going to go towards a model like that where they're selling things out of subscription? Or, are there going to be bidding wars? Do you want to get into a bidding war with Amazon? Will Amazon get into bidding wars for things like sports?

**Tom Mullooly:** Can you imagine it. Can the bidding war for the Super Bowl get any higher? It's out of control right now. Now they're having trouble selling the ads.

**Brendan:** Well, I almost feel like Amazon would step in and buy the rights to the Super Bowl, out of left field. Bezos would do that just to laugh at everybody, I think, because they all laughed at him at one point with his online bookstore.

**Tom Mullooly:** Let's swing this around. Warren Buffett and Jamie Dimon came out with some news today. They talked about both of them, they think it's a good idea to curb the ... I'll quote it, "unhealthy focus on quarterly earnings."

**Brendan:** What do you think about this?

**Tom Mullooly:** I think it's a great idea that will probably never work. I just think that there's going to be businesses that have such great news to report on a 90 day basis that they're going to want to tell their story. I also think that there's going to be some companies that have really bad news, and if they can bury that for 340 more days, they'd love to, because it gives them the opportunity to sell their stock.

**Brendan:** Right. They were more talking about earnings guidance for the coming quarter. They were basically saying that it's valueless for companies to predict what's going to happen. They're still going to report on a quarterly basis, because no one's going to give them their money

otherwise. I saw Matt Levine who writes for Bloomberg, he has his daily email that goes out, that's very good and funny, worth subscribing to, if you don't.

He had some opinions. I don't remember specifically if they were all his, but some of the things he was saying was that this sounds good coming from Buffett and Jamie Dimon. But, for every Buffett and Jamie Dimon there are 10 to 20 other CEOs that we've literally never heard of, and it's mostly just a trust thing. Investors are okay with Warren Buffett not checking in with them every quarter, because he's Warren Buffett. But, if it's some other random company, it kind of is reassuring to get something from them. Like, hey, this is what we are hoping to do over the next quarter, and give you some tangible stuff.

I kind of agree that predicting the future in any capacity is valueless, but I'm not sure what that alternative is. I think Matt Levine was saying ... I'm forgetting. I think it was something about Chesterton. Chesterton is ... I'm forgetting if it's a principle or a ladder. It was something about Chesterton and it was basically saying, if you don't understand something, you can't just get rid of it, because you don't understand it.

It's like if you said, I don't understand why these companies have to say what they're going to earn over the next quarter. I just don't get it. It's stupid. They should get rid of it. Chesterton would say, okay, go back and learn why they actually do this in the first place, and then we can come up with a replacement. You can't just get rid of it because you don't understand it. That doesn't make any sense.

**Tom Mullooly:** Another story that we saw in the Wall Street Journal in the last couple of days, headline was, Value Investors Face Existential Crisis, like we're all John Paul Sartre, after a long market rally. This savannah has been picked pretty clean apparently. Where do we hunt for cheap stocks?

**Brendan:** I don't know. I think it also depends on what metric of valuation you're using. I've seen a lot of hand wringing lately about price to book, and how that is not useful or maybe has lost some of its luster in terms of being able to accurately value companies. I know O'Shaughnessy Asset Management had a pretty interesting piece in the last couple of weeks on that. First off, what kind of value are we talking about? What metrics are these people using?

Also, if you're going to do anything, whether it's value, growth, momentum ... If you're doing something different than the market, you should anticipate that there are going to be long stretches where looking different isn't like a good thing. That's how it's sold. It's like, we're going to be different and that's good. It is good if you can hang in there and do all these things, and collect the premium that has existed over time.

The reason that it works is because people do stuff like this. They begin to doubt when they're in the desert stranded for years upon years. Hey, maybe value doesn't work. And then those people sell and they are basically subsidizing the people who hang in there.

**Tom Mullooly:** I was going to say, that's when value starts to work.

**Brendan:** Right. Didn't everybody say value wasn't working anymore? People literally mocked Warren Buffett during the tech bubble because he wouldn't buy internet stock.

**Tom Mullooly:** In the late '90s he said hey, I'm not buying things I don't understand. I don't understand how these companies work. He wasn't subscribing to the Mary Meeker price to eyeballs ratio.

**Brendan:** I just think many value investors got killed during that time period. They're doing something different than the market. I don't think we should be surprised that there are trials and tribulations associated with that.

**Tom Mullooly:** I need to just mention as we're recording this, you can't see it because we're in our podcast thing, but you have an Abnormal Returns mug, right next to you. Our friend, Tadas, runs a great website there. He had a pretty interesting post about spending speed bumps.

**Brendan:** This week has been interesting because Tadas has actually ... He stored up a bunch of these different posts, original posts, which he usually sprinkles a few of them in, but it's been all week this week, original posts from him. They've all been pretty interesting. I would go check them out if you haven't.

**Tom Mullooly:** He writes so well.

**Brendan:** In addition to doing that, if you're not familiar, he's normally sharing blog posts from all around, finance Twitter, and different places. The Saturday Roundup touches on all different areas. Great curations, it's one of my favorite sites. I do have the mug sitting right here.

**Tom Mullooly:** He talked about watching your neighbors increase their spending habits is a visceral challenge, kind of like keeping up with the Jones' that we always talk about.

**Brendan:** You want to obviously try to avoid that and live within not only your means, but what's important to you. When you're buying something, is it actually important? Is it going to bring you happiness in the future? Or is it going to be fleeting?

**Tom Mullooly:** I think it was Ronald Reagan who said, what's the definition of a recession, is when you're neighbor loses his job. Then the definition of a depression is when you lose your job. It's kind of like the quote he used. What's worse than winning the lottery? Watching your neighbor win the lottery.

**Brendan:** I think this doesn't always go for lotteries or people keeping up with the Jones'. People do this with their investments too. It's comparison shopping almost. It's like you hear somebody chatting about their terrific stocks that are just skyrocketing, and it makes you feel like you're not keeping up, or whatever it may be.

First off, you don't even know if they're telling the truth. They're probably exaggerating. Second off, why is that important to you? If you're doing stuff that's right for you based on a plan that

you came up for yourself, or you worked with somebody to develop based on your specific situation-

**Tom Mullooly:** It should be all that matters.

**Brendan:** Right, it should be all that matters. I understand that that doesn't hold any water when somebody else is getting rich and you feel like you're losing. But we can only say it so many times. If you don't want to believe, then so be it.

**Tom Mullooly:** That's your problem. Well, I think we also have to tie in our friend Justin Castelli's quote. You're the average of your five closest friends. I've actually heard that in several different places. Justin's written about that quite a bit. I also know going back to Tadas, he talked about how there was a study in Canada that showed that people whose neighbors, where the neighbors won the lottery, they've actually filed bankruptcy more, on average than other Canadians. Interesting. I guess people trying to keep up with the fat cats next-door. Doesn't always work.

**Brendan:** It probably never works.

**Tom Mullooly:** So Brendan, Tim Cook admitted that he spends a little too much time on his iPhone.

**Brendan:** Apple was talking about this week, new ways ... People concerned that we're all spending too much time on our phones so they're going to come out with this new app that tells you ... I guess it's going to give you data on your app usage, and how much time you're spending on it. Then you're also going to have the ability to set timers for yourself that tell you to stop it.

**Tom Mullooly:** I think that's actually a pretty good idea. One of the things that Apple recently did with the latest upgrade in their software in the last couple of weeks was they basically allow you to turn off your phone when they can sense that you're driving.

Which I think is great.

So you won't be interrupted by a phone call or a text, or something like that. I was coming back to the office at lunchtime today, and I almost got run over by a young woman who was driving very fast, and actually had to swerve around me to stop. Then when she caught up to me at the next light, the first thing she did was look down again at her phone. That kills me to see that.

We are spending too much time on our phones. I think what I worry about is that the young kids, the teenagers, have their nose in the phone, they're not developing any social skills whatsoever.

**Brendan:** I think it's a problem across generations. Because I think old, young, if you have a smartphone, your face is probably in it most of time. You can have social skills and be acquainted with society and lose them over time if you don't exercise them. I think there are probably old people who are out of touch with society too, because their phone's up in their face all day long.

Are people actually going to stop when their phone says, hey, you've been on Twitter for two hours? Stop it. It's worth a shot. I totally agree it's a great idea. It's worth a shot, but I'm pretty sure you could ... It's not like your phone is going to lock you out or something.

**Tom Mullooly:** I wanted to wrap up today with a story that was in the Wall Street Journal talking about the uncomfortable relationship between mobile payments and financial literacy. Brendan hasn't seen this.

**Brendan:** What's the gist of it though?

**Tom Mullooly:** Story from Annamaria Lusardi, who writes a lot about financial planning topics. She mentioned that millennials who make mobile payments are much more likely to use credit cards in expensive ways, such as paying only the minimum due. It's interesting to see that she began the story talking about E-ZPass, and how people don't realize how much we spend shooting through these tolls. We are in New Jersey so we travel-

**Brendan:** Going into the city? Bridges, tunnels.

**Tom Mullooly:** Going through some of the tunnels. George Washington Bridge, I think is \$12.50. Verrazano Bridge is more. You don't see it when you're zooming through the lanes, but I get the bill here at the office. I go through it and I'm like, okay, where was I on that date? Oh yeah. Then you start to add up the cost of all of these trips and then add the gas on top of it. Her point was, we never really add up how much we're spending when we're zipping through an E-ZPass lane. Same way, when you're making mobile payments. In addition to paying only the minimum that's due, or incurring fees, there's also these ... Millennials are also more likely to overdraw their bank accounts.

Listen to this. 33% of mobile payment users overdraw their bank accounts, compared to 19% of nonusers.

**Brendan:** Still bad in both instances.

**Tom Mullooly:** Even nonusers, almost 20% of people are overdrawing their bank accounts each month. What's up with that?

**Brendan:** Weren't there similar kind of sentiments though when credit cards and debit cards became a thing? People resisted like, I don't feel like the money's actually there. I'm not spending anything.

**Tom Mullooly:** Not real money.

**Brendan:** I agree with the point that it makes it easier to not think about what you're spending, but at the same time, the root of that issue ... I guess the easiest way to combat that would be to use cash for everything.

**Tom Mullooly:** It would be a real eye-opener for people. I think people would make decisions, maybe better decisions. Like hey, I don't need to spend the money on that. I can't imagine going to Costco and having to pay cash.

**Brendan:** There are things people need financing for. Things like credit cards and E-ZPass, they have to exist. People have to get loans for things, so nobody's going to do cash for everything. No one could buy a home without financing.

**Tom Mullooly:** One of the things that really jumped out at me in this article was that, 37% of mobile payment users take money from their retirement account, compared to 9% otherwise. She didn't have any data for this, but one of her conclusions was, those who use mobile payments have much lower levels of financial literacy than nonusers. I don't know how you score that.

**Brendan:** Yeah, I think that's tough. I'd also be interested to see the group of people that build these survey numbers.

**Tom Mullooly:** What was the sample?

**Brendan:** Maybe it's just me, taking offense to it, because I use mobile payments and I don't overdraw my bank account and take money from my Roth IRA. That's beside the point.

**Tom Mullooly:** I'm old fashion. I'm a check writer.

**Brendan:** I have high financial literacy, I would hope. I'm sure there are people out here that don't understand what they're doing. The ease of spending money on things like this, even money that you don't have, it could put people in some bad spots if they don't totally get what they're doing.

**Tom Mullooly:** One question. Totally random. Alright? Who has more locations, McDonald's, or Starbucks? You can include the new Starbucks that opened about a half a mile from the office.

**Brendan:** Probably Starbucks, I'm guessing.

**Tom Mullooly:** The actual answer depends on if you're talking about just in America-

**Brendan:** ... globally.

**Tom Mullooly:** Or worldwide.

**Brendan:** Is McDonald's ahead globally?

**Tom Mullooly:** Way ahead. Way ahead.

**Brendan:** Makes sense.

**Tom Mullooly:** McDonald's has 35,000 restaurants compared to just under 27,000 for Starbucks. That's still a lot. But Starbucks here in America, Starbucks has 2,000 new stores that opened this year. They've got 14,300 locations in the Americas. The America's, I'm supposing that we're including Canada and Mexico with that as well. What else do we have?

**Brendan:** This one I wanted to bring up. It was an article from the Wall Street Journal about the next threat to oil prices, which they say is China.

**Tom Mullooly:** Wait a minute. This isn't the current threat.

**Brendan:** No, no.

**Tom Mullooly:** This is the next threat.

**Brendan:** Well, I just wanted to bring it up because we talked about this last week. The headline that we talked about last week was saying that, it's not the dollar. It's GO politics now. I was saying you could just insert the crisis du jour and it would be the same article, just like repopulated with different words. It was interesting to read about, I guess. Their concern is that demand from China for oil will not be as high over the coming months as it has been in past years. Maybe that's right, but it seems like if they write enough of these stories that one of them will be right. Then in hindsight they can go back and say, see, it really was China, and we called it. It's well, I don't know, man.

**Tom Mullooly:** I'd put some money on the G7, but that's me.

**Brendan:** I just wanted to bring that one up because it seems like there's a new fill in the blank reason for things like, oil prices, or stock prices, every week. I think each one of them is-

**Tom Mullooly:** It's got merit for the day.

**Brendan:** Well, I think they're equally as not valuable today.

**Tom Mullooly:** We've talked about this on podcasts and videos and done blog posts on this as well. It just cracks us up as a team, to see people report that, the market was up today because, fill in the blank.

**Brendan:** Because of this, because of that. You can see headlines in the morning that are reversed in the afternoon. They have to report the news. This is somebody's job. They pretty much have to do what they're doing. The thing that really baffles me is people that make investment decisions based on daily explanations for what the market's doing, as if we understand what billions of humans are doing with their money each day, and why they're doing it. We could never understand that and nobody ever will.

**Tom Mullooly:** In six months whatever the reason ... I'm using air quotes. But whatever the reason is, stocks went up, or stocks went down today, six months from now we will not know about it. Or, we will have forgotten about it.

**Brendan:** Like in this example, if it is China, so what do we do about that? How do we profit off of that? Are we going to be right for sure? Tough way to make decisions, so I hope people are not doing that. I know they are, but I hope they aren't.

**Tom Mullooly:** That's going to wrap up the Philadelphia episode number 215. Join us again in episode 216, as we explore the Southside of Cleveland.

**Brendan:** We'll see you then.