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SL: Tales from Nextdoor and the Naples "Mom Page"

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Index Momentum

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Dear Fellow Expat:

Nextdoor.com is a social media site allowing neighbors to discuss all things local…

Restaurant reviews, updates about loose dogs, requests for handymen, gardening tips, and - of course - rants and insults over politics.

One of the nice things about Nextdoor is the lack of anonymous accounts. People must speak under their own name and list their community.

Of course, that doesn't stop some people from displaying how out of their minds they are.

One woman in my neighborhood has never written a positive review of any local restaurant in the area.

"I wouldn't eat there again if ya' paid me…" she types…

I imagine her voice is cranky and rusted, the product of 30 years of Kool cigarettes and Drambuie. "*I wouldn't eat there…*"

It was a good punchline at first, but now it's tired—the social media rendition of Fonzie jumping the shark on Happy Days.

The most common Nextdoor complaints come from people who moved to Florida and joined communities with Homeowners Associations (HOAs). Behind each HOA is a group of leaders who oversee budgets, community projects, and community safety.

I've yet to find a Florida HOA that receives glowing reviews. People are "shocked" to discover there is corruption in these tribes… or to realize that - just like government - these leaders are "Olympic level" at spending other people's money.

The latest complaints come from two developments north of me.

The HOA quietly passed a budget that will install Pickleball courts in place of existing fields or basketball courts.

Naturally, not everyone plays pickleball. The HOA members do.

And that's what matters. You'll find unaccountability is the feature… not the bug… in HOAs.

When it comes to HOAs, I avoid them… like bad romantic comedies, olives, or other people's kids. There's nothing worse than a committee with just a tad of control of other people's money.

And it's not like there's a way to tell which HOAs are good or bad.

There's no real screener to rate one neighborhood's leaders as a good, responsible HOA or another as a reckless one. It'd be a great way to determine if they have a buyer's interest at heart.

But in the stock market… there IS a tool to help us determine which stewards of our money (the board of directors) are responsible to their stakeholders.

Think of this tool as the ultimate weapon to help you determine if management has your back.

Let's have a look… [*and stick around for my commentary on inflation on the "Naples Mom Page."*]

Finding Perfection in a Troubled Market

Yesterday, I talked a little about **Crescent Energy (CRGY)**. I didn't dig into the operations of the oil and gas producer. I only focused on the numbers.

The stock's trading for $12.50. Its Graham price is $33.00. Its trading for 66% of book value. And its F score… is an 8.

F score? That sounds dirty…

No… It's the cleanest way to measure the performance of a company's board at maintaining a strong balance sheet and boosting shareholder value.

So, quick.

Joseph Piotroski is an accounting professor at Stanford University. Before that, he taught at the University of Chicago.

He created something called the F score. **He did so when analyzing the works of investment legend Ben Graham.**

The Piotroski F score is a nine-point metric that analyzes the health and strength of a company's balance sheet.

If the company meets the following criteria, it receives a point for each. A "9" is a perfect score.

1. Positive Net Income
2. Positive return on assets in the current year
3. Positive operating cash flow in the current year
4. Cash flow from operations being greater than net Income
5. Lower ratio of long-term debt in the current period, compared to the previous year
6. Higher current ratio this year compared to the previous year
7. No new shares were issued in the last year
8. A higher gross margin compared to the previous year
9. A higher asset turnover ratio compared to the previous year

When companies have high F scores, their board is doing what they should be doing. They're enhancing shareholder value. They're buying back stock. They're paying off debt.

They're increasing cash flow… and increasing margins.

Now… we don't need a company to have all nine. But we want to see continual improvement. When assessing stocks that could rebound, we want to start with at least a 7.

A company with a 9 out of 9 has an extremely shareholder-friendly executive board that is interested in boosting shareholder value.

The F Score in Action

One of the great examples of shareholder discipline of the last decade happened in the energy sector.

In 2014, West Texas Intermediate (WTI) crude, the U.S. benchmark, jumped above $100 per barrel. U.S. oil producers responded by turning on the taps and trying to make as much money as possible.

That didn't work. Oil prices collapsed under $40 in the next 18 months. Shareholders – particularly activist investors – were furious. They put the screws on the company boards.

Some CEOs were fired.

Others simply resigned in shame.

Since 2018, however, energy companies have engaged in extreme financial discipline. Even with oil prices elevated near $90 today, you'll be hard-pressed to find oil companies that are drastically ramping up production to try to make lots of money.

Instead, we're seeing patience. Instead of expanding production, companies are paying off debt or buying back stock. No matter how many times the Biden administration asks them to boost output, they point out that they have to put shareholder interest first.

So, they're boosting margins by re-fracking wells or streamlining operations.

If we look across the oil patch, we'll find 19 oil exploration and production companies with an F score of at least 7.

Companies we love - **Vermillion Energy (VET)**, **Crescent Energy (CRGY)**, and **Black Stone Minerals (BSM)** - have an 8.

Enerplus (ERF) is the only one with a 9 right now.

If you're getting to know a business, dig into the F score. If the company doesn't have a point for each category, take some time to understand why. Sometimes, it could be something simple.

But other times, it can show you a red flag.

It's also important to **combine the F score with other metrics** to help build conviction and identify stocks you want to buy, stocks you want to trade, and stocks you want to avoid.

Other Ways to Discover Shareholder Interest

The F-score is a great tool to help you understand if the board has your interest at heart. But there's another, simpler way.

Are they shareholders themselves?

Insider buying and ownership is a very important metric. It's not just the fact that they own the stock – but how much.

When you start seeing companies where the insiders own more than 20% of the company, that's telling you something important.

They have A LOT of skin in the game. So it's not just about your money. It's about their money, too. We'll dig deeper into how to identify big shifts in insider ownership… Stay tuned.

And Finally… Moms and Inflation

In the title, I mentioned the "Naples Mom" pages on Facebook.

My wife reads these posts out loud to me on occasion to test my sanity.

I'm not very sure exactly what people have been doing for the last three years. But following financial news and basic market dynamics is not one of them.

Recently, there's been a surge of posts about affordability in Southwestern Florida. From rent to food to the cost of local attractions, everything is going up… up… up…

"What is happening?" one person asks.

"When did things get so expensive?" asks another…

"I just ordered a glass of wine, and it's $26." Another says… "I'm *literally* at the bar right now, and I can't believe it."

[*Um… Mam, it's 11:30 a.m., and this is a Wendy's drive-thru*.]

Let's say it **ONE more time** for the people in the back.

In 2020, as COVID hit, the United States government and the Federal Reserve decided to print trillions of dollars and inject an ungodly amount of money into the financial system.

Then, even though we didn't need it, the government passed massive stimulus bills for infrastructure and green energy.

We’re talking trillions of dollars (largely created and borrowed) flushing through the economy.

As Milton Friedman once said, inflation is entirely a monetary phenomenon. Increase the money supply, and you’ll find that too much money is chasing a scarce amount of goods.

Inflation surged in 2022…

And government did everything wrong to contain it.

“But I thought interest rates went up?” someone replies.

Yes, but the Federal Reserve does not and cannot fight inflation by itself. The Fed has two primary tools to fight inflation. It can raise interest rates… and it can sell assets off its massive balance sheet – which pulls capital out of the markets.

But, this inflationary expansion is largely driven by fiscal spending. The United States government will run a $2 trillion deficit this year.

If we wanted to really drive inflation down, government could balance its budget and quit pumping money into the system.

Should they do so, the Fed could cut rates next week.

But that’s not how it works when a bunch of senile politicians are raiding the Treasury. Even all that money that is paid in interest on the National Debt… it will find a way into the economy and into assets.

It’s the money printing… stupid.

I’m watching Nobel Prize-winning economists make complete fools of themselves by claiming that inflation is “falling.” In addition, we see lots of people blame everything else except for the money printer. Over in England, for example, the nation’s financial leaders blamed “workers” for demanding higher pay.

You see, it’s easier for them to pit workers and bosses, the left and the right, the Tories and Labour, the GOP and the Democrats – against each other…

Than to ever admit that their policies are the reason why so many people are struggling.

I know it sounds simple: "*They printed too much money.*"

But that's the answer.

Full stop.

Tell every Naples mom you know, and stay positive,

Garrett Baldwin
Secretary of Finance
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