INSIDER *Trade Alert*

CAPITALIST EXPLOITS

Introduction

This is a trade recommendation coming from Capitalist Exploits' membership service Insider, which you can learn more about here. It's been designed to provide you with opportunities across different asset classes and markets that feature an asymmetric risk/reward return - that is, we're aiming to risk a little to potentially make a lot, and we're repeating this strategy to create an entire portfolio.

This trade alert represents one of more than 15 recommendations that have been made this year so far, with members receiving on average two alerts per month.

Under-The-Radar Bull Market In One Of The World's Most Hated Markets

In this this Insider trade alert, we take a look at one of the most hated markets in the world. While completely shunned by the investment community, it's in a stealth bull market and today's 5 investment ideas could deliver outsized returns over the coming 5 to 10 years.

This time, we're going against conventional wisdom and getting long Greece.

To say Greek stocks are unloved would be kind. Hated is more like it. Certainly forgotten by the investment community, but, if you look carefully, in a stealth bull market. If you're thinking to yourself, Chris, you are absolutely mad, then let me remind you that it is typical that the most uncomfortable positions almost always are coincidentally those where asymmetry exists.

We've been diligencing Greece for a long time now, talking with various fellow colleagues, sharing notes and so on, and I'm cognisant of trying to provide you with just what matters since if you let me fly, I'll write a book on the topic and/or talk all day. Neither of which are necessary or useful for you.

So what is my underlying thesis for being bullish Greek equities? Well, instead of putting together a high flying reasoned discussion on how economic production is about to pick up and valuations still reflecting Greece being in a depression for the rest of time… let me approach this from a different angle.

Below is the Athens Mid Cap Index. There are about 20 stocks that comprise this index. Picture this: let's say that just prior to the US Credit Rating Downgrade on the 2nd of August 2011 you knew exactly what all of the news flow was going to be for the next 6 years (until now). The only thing you didn't know was how financial markets were going react to the news flow.

Athens Mid Cap Index

Wouldn't you think that this would be a textbook bearish setup? Looking back now, I ask myself the question what more could possibly have been thrown at Greek equity markets over the last 6 years? Perhaps Greece leaving the Eurozone, though there is no guarantee that that would have been a bad thing.

Well, guess what? The average stock on the Athens exchange is trading more or less where it was just prior to the US Credit Rating Downgrade in early August 2011.

So if you had gone short a basket of Greek shares in early August 2011, you would have virtually nothing to show for your efforts some 6 years later in the face of what can only be described as absolutely toxic fundamental newsflow and sentiment. So if you haven't made money now by being short, it's useful to ask the question: what is going to help you make money in the future by continuing to be short?

We're bullish on Greek equities for two important reasons.

One is because I cannot think of anything that could push them materially lower on a 5-10-year view, and the other is the impact that Chinese investment dollars via OBOR (One Belt One Road) will have on the economy. Right now there are precious few sellers left. Everyone who wanted to sell has done so while at the same time nobody, and I mean nobody, is looking at Greece, even though the market is telling us to pay attention. One of these days we're going to wake up to find Greek equity markets ranking in the top performing markets globally. Wait for it!

Is my "reverse" way of thinking a "cop-out" for not doing hard core fundamental analysis on the Greek economy and drivers of economic growth, earnings growth, etc.? Certainly not. I'm no stranger to hard work and spending hours researching, and I'll provide you with some of the valuation metrics further on where you can see for yourself the value sitting in front of us.

Also, I have been around long enough to know the future is a dynamic thing as there are so many random variables that can come into play. Furthermore, at the bottom of a market or near to it, you will never find any positive commentary/analysis.

Equity markets have this unique ability to anticipate changes in fundamentals. To be ahead of the market you have to have the ability to discard popular narratives and search for clues to allow us to anticipate what the market is going to anticipate.

I have also lived through many crisis before and studied bull markets that result. Bull markets happen for reasons which you would never have thought of at the time.

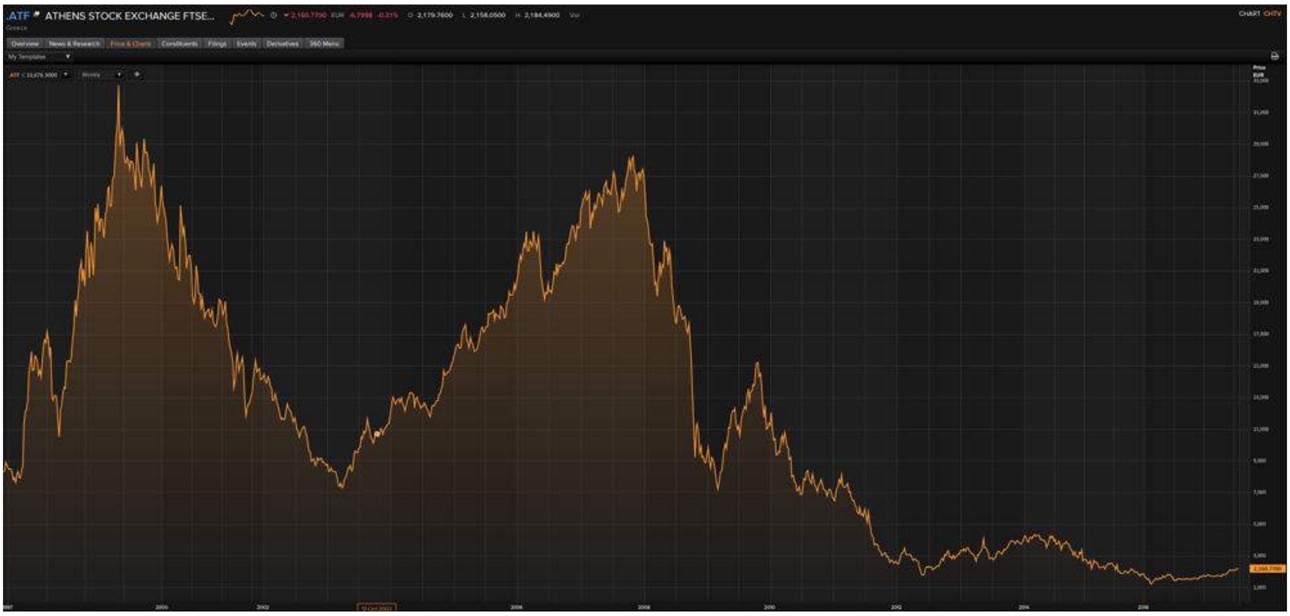
One of the best measures we use is watching how any given market reacts to "bad" news. If a market refuses to go down against a barrage of negative news, then there is a reasonable certainty that a market bottom is already in or near to forming. This doesn't mean that it will turn around and vault higher the next day (or even within the next few months) because base forming is often part of the process too. What it does help us do is provide a probability setup where we can find extraordinary asymmetry well ahead of the pack.

Thereafter the upside is a function of news coming in less worse than expected. Eventually, as market start to rise, investors/commentators start looking for reasons to justify why markets are moving higher. It's a situation of the narrative following the market and acts as a self reinforcing mechanism. Soros, who is a pseudo intellectual parasite but phenomenal trader, refers to this as "reflexivity".

Let's take a long term look at the Greek stock market and then go back over some of the crisis that have shaped the way I think about the beginnings of a bull market.

From its peak in 2008 to its low in 2016, the Athens stock market lost some 95% and that was over an 8 year period taking it to lows not seen in two generations.

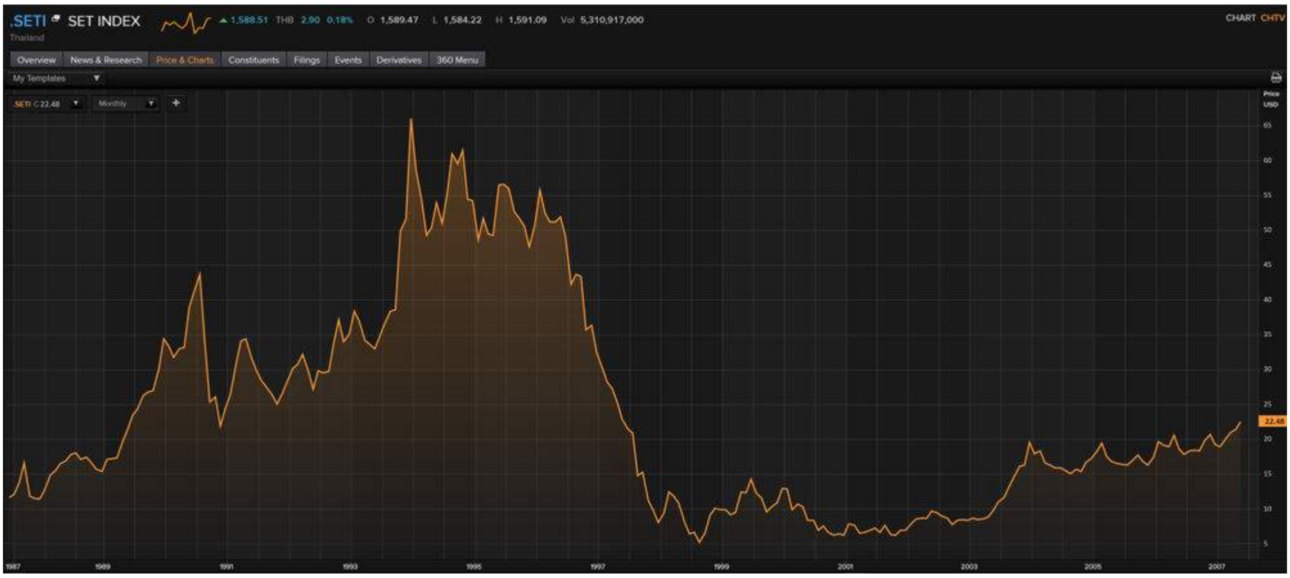
I think that is a big enough fall and for long enough passage of time for the average investor to come to the conclusion that there is no hope ever for the Greek market to grow again or ever scrabble it's way out of a bear market. Bull markets have a habit of starting when no one expects them to. We need to have the boat heavily one sided in order to provide the momentum to drive the next major move.



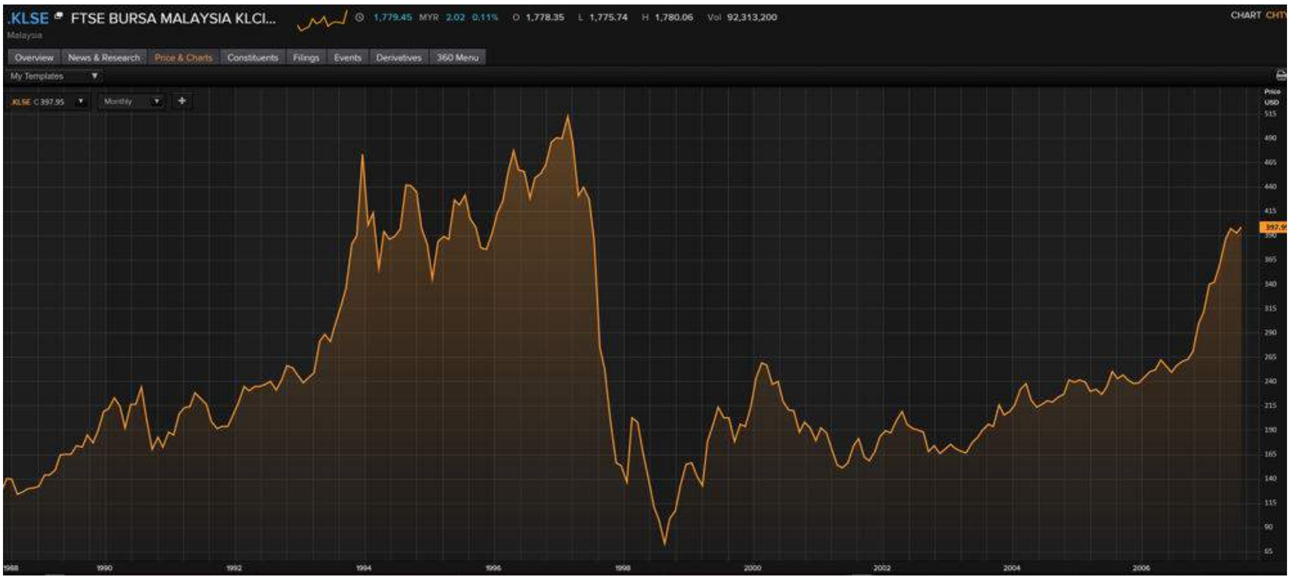
Athens Top 20 Index

The first real crisis I can remember (and appreciate as I had skin in the game) was the Asian Tiger crisis of late 1997 and then the LTCM drama of late 1998. Asian equity markets were crushed, unwinding every bit of upside that had created the delusion of the Asian tiger economies.

Thailand's stock market crashed by 92% (in USDs) but five years later was up over 400% from its lows for reasons you would have never thought of, or dared to think of at the time.

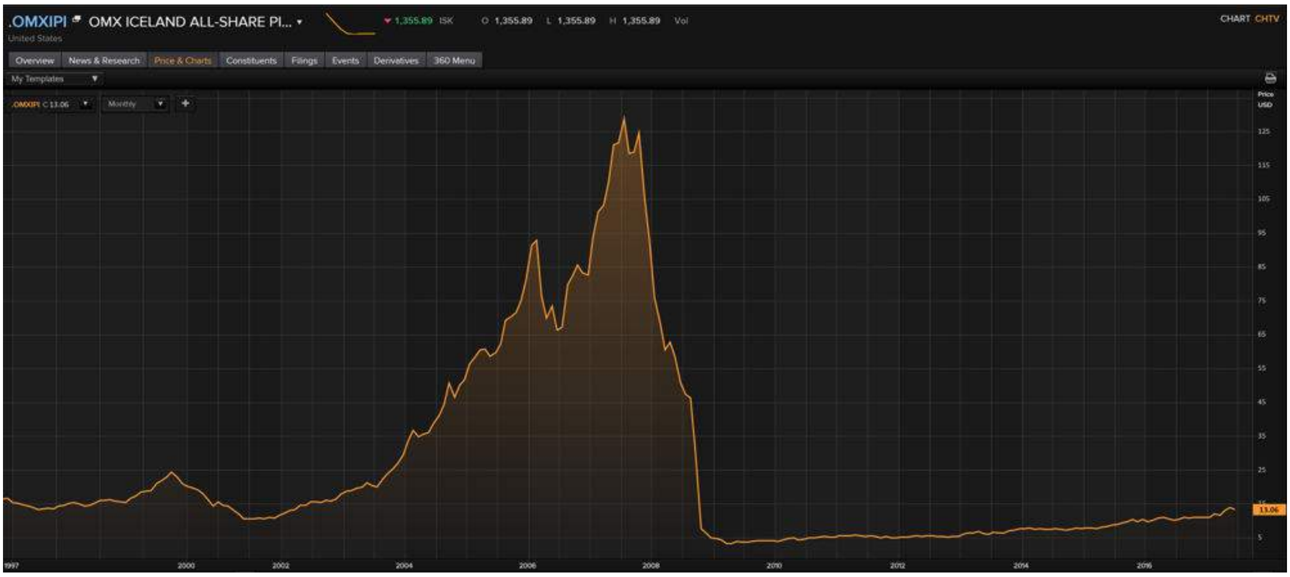


Malaysia's market didn't fare as badly by falling "only" 87%. But four years later, it was up some 550%.



Then there was Russia, unaffected by the Asian tiger drama but it got smashed when it defaulted on its debts in 1998, triggering the infamous LTCM crisis – down some 90%. But in the years following – up 44 fold. Those were without exception instances which had the makings of investors courageous enough to buy when blood was in the proverbial streets.

Lastly, there was Iceland's meltdown during the GFC – a 98% belting. But up 400% since then.



And the Dow: 90% down courtesy of the extravagance of the roaring twenties and idiots who thought stocks had reached a permanently high plateau.

And if you have another look in the graph above, you will see an "insignificant" pull back from 1917 until 1921 (near enough). That was a 4-year bear market where the Dow lost about as much as it did during the GFC of 2008!

So what is the moral of the story here? It is probably not a wise idea to go short a smaller emerging market (get bearish) when it has fallen by 90% or so or by 50% for a developed market.

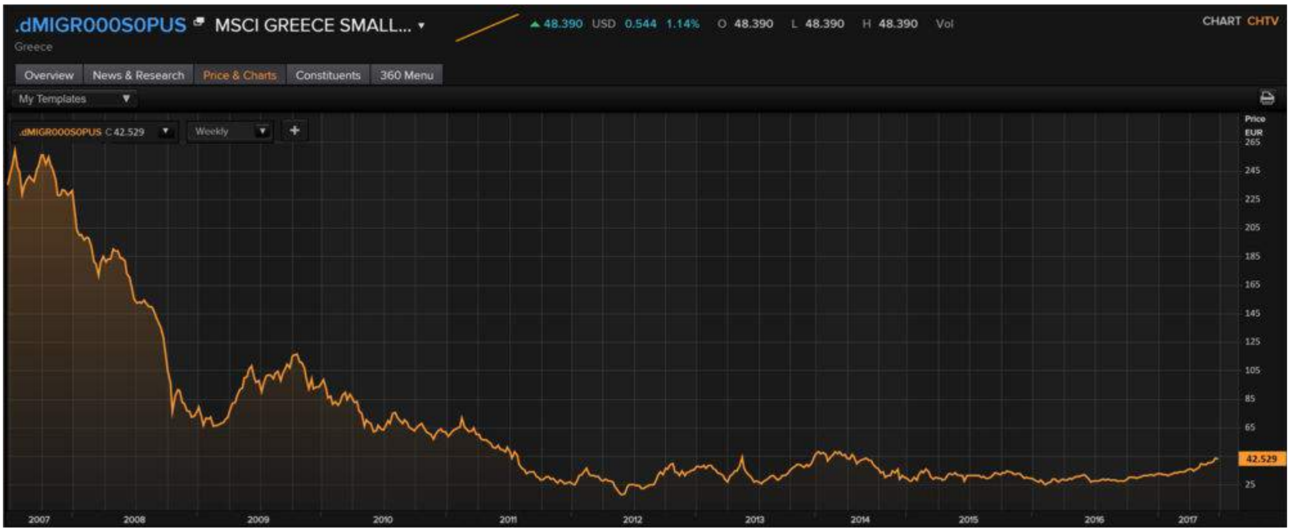
From a fundamental perspective there isn't any common thread for why bull markets started when pessimism was so toxic. Typically the fundamentals tend to have been positive for some time but it is sentiment that changes the picture.

I guess that is what John B Templeton meant when saying:

BULL MARKETS ARE BORN IN PESSIMISM,
GROW WITH SKEPTICISM, MATURE IN OPTIMISM AND DIE IN EUPHORIA.

Greek Stocks: Observations and Considerations

The rats and mice of the Greek stock market (small caps) are no longer making new lows. On the contrary they look set to break to the upside from a 6-year old ever-tightening trading range. No one is talking about this and certainly the pointed shoe boys on Wall Street and in the Square Mile appear to be completely unaware. This is how it should or indeed must be for asymmetry to exist.



Valuations

The true value of a stock is or at least should be a function of future cash flow generation, ROE, etc. We know that. However, **just what will the profitability of Greek stocks be, in, say 5-years?** Even if there is no meaningful margin expansion we do know that we're not paying much for the assets of Greek stocks with the average P/Book ratio is some 0.65.

Looking at the indexes and the charts you'd be forgiven for thinking that all of these stocks are losing money. Far from it. About 75% of stocks listed on the Athens exchange have a positive ROE – way more than one would expect given we have been led to believe the end is nigh.

Speaking of Banks

You'd be forgiven for thinking that Greek banks are about as fragile as your bladder after six pints and sat atop a galloping horse. While they're not the poster child of stability, they are probably more robust now than they have been in a generation or two. One of the primary reasons for this is the recapitalizations that they have gone through over the last 18 months.

The Greek Government, via the Hellenic Stability Fund, has taken equity stakes in the four "big" Greek banks (there used to be ten but they were merged to form just four). Significant portions of non-performing loans on the books of Greek banks were "offloaded" (losses realised). So we don't see this as another situation like the Japanese banking in the 1990s where the Japanese refused to deal with bad loans sitting on Japanese banks' balance sheets and just let them languish unrealised.

Who Owns Greek Stocks?

Bear markets happen for a very simple reason. There exist a large pool of marginal sellers. Bear markets end when the market literally runs out of these sellers. By default bull markets start when there is a large pool of marginal buyers. Yes, it is that simple. Everyone concentrates on the fundamental narrative or story but few focus on the underlying "structure of the market".

I cannot get any official stats but I would think after a bear market lasting some 8 years, which saw the average stock fall by some 95%, anyone who was going to sell out of their holdings has already done so.

And how easy is it to buy Greek stocks? Most brokers don't bother to include Greek equities as part of their product offering and even those that do, like Interactive Brokers, only cover a few big cap names. This strengthens my belief that Greek equities are held by a relative few.

Enter China Looking for a Bargain (or Three)

When assets get cheap, out come the bargain hunters, and when the sheep see bargain hunters at work, they follow. So, too, does the narrative.

The Chinese have been quietly buying up assets in Greece over the last few years. Here are a few examples.

China now has a significant stake in Greece's power grid:

POWER UTILITY | STAFF REPORTER, CHINA
PUBLISHED: 23 JUN 17 10 VIEW(S)

China's State Grid Corp completes buying 24% stake in Greek grid operator

The stake was worth US$356m.

The Chinese State Grid Corporation has completed the purchase of a 24% stake in ADMIE (Independent Power Transmission Operator), Greece's power grid operator from Greece's state-held power utility Public Power Corporation (PPC), according to Enerdata.

So China now has a significant stake in Greece's power grid. And guess what else they have bought up?

> "THIS IS THE STATE GRID'S LATEST ADDITION TO ITS LINEUP OF OVERSEAS ACQUISITIONS. THE DISTRIBUTOR OF POWER TO MORE THAN 90% OF CHINA ALSO HOLDS A 25% STAKE IN PORTUGAL'S NATIONAL GRID OPERATOR REDES ENERGETICAS NACIONAIS, AND 10% OF THE NATIONAL GRID OF ITALY."

China Ocean Shipping Co (COSCO) now has a controlling interest in the biggest port in Greece (Piraeus) and one of the largest in the Mediterranean.

Relationship with Greece on fast track

By Ma Jingjing Source:Global Times Published: 2017/6/21 22:18:40

The "One Belt One Road" initiative has deeper implications for Greece from a positive perspective, but it is still hard to quantify.

One Belt One Road: the turning point for the recovery of Greek economy?

By Zacharias Kampanis | chinadaily.com.cn | Updated: 2017-06-02 20:04

The Chinese don't tend to once off opportunistic purchases. They are usually part of a grand plan. The Athens Airport project is one such example:


FOSUN TO INVEST IN $9.3B GREEK CASINO AND RESORT PROJECT

2014/06/30 BY MICHAEL COLE — 1 COMMENT

And it isn't just the investment in Greek assets that we should take note of. The tourism aspect should also not be ignored. Come September this year there will be direct flights between Beijing and Athens. Up until then Chinese wanting to visit Greece will have to go via Frankfurt. Of course, that will open the doors to Chinese tourists. I've seen this firsthand when I was living in Thailand and continue to see it every time I am in Asia. It is a significant factor not to be underestimated.


Number of Chinese Tourists Visiting Greece to Rise 10-Fold

By Eleni Chrepa and Sotiris Nikas
9 May 2017 11:00 AM AEST Updated on 9 May 2017 4:35 PM AEST

I could go on but I think you get a reasonable idea. Change happens in the face of adversity. The Greek economy will rise from the ashes and it is probably already well on its way to doing so.

How to Get Exposure to Greek Equities?

As discussed above, I am not aware of many brokers who will provide access to trade equities on the Athens exchange. And those that do don't have a wide product offering.

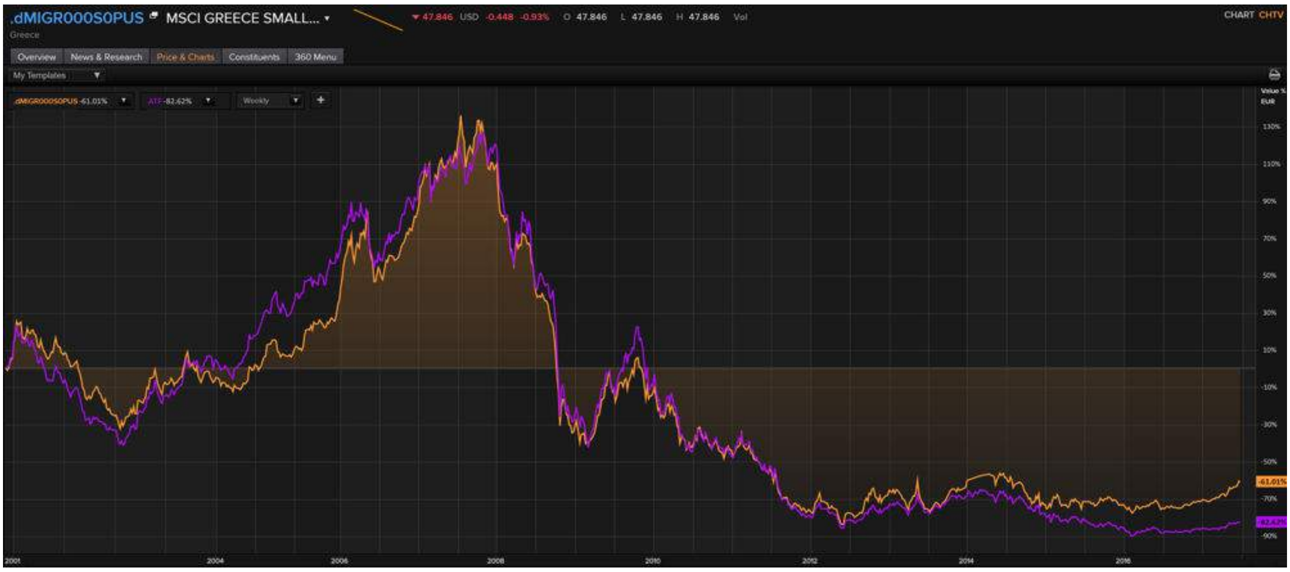
So those who want to stock pick are in for a "process" to gain exposure once you have decided what to trade.

Let me not kid you (or myself). Frankly, I wouldn't know which stocks to pick as there are so many offering exceptional value, with little or no debt, and respectable returns on equity (no mean feat given the depression that resides over the Greek economy).

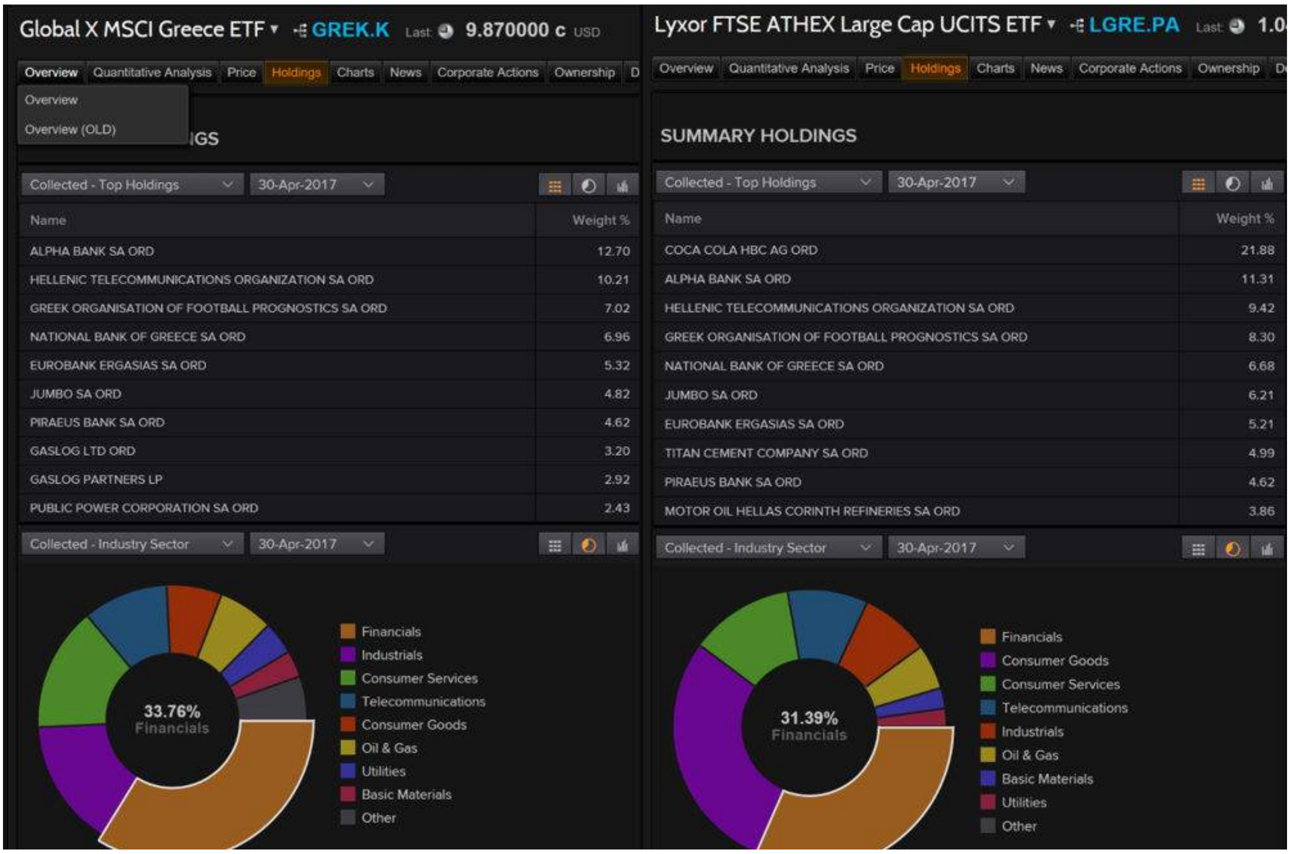
Yes, I like to "try my luck" at stock picking. I feel much more fulfilled as an investor when I latch onto a stock which bolts higher than I do when I buy an ETF that tracks a market or sector. But sometimes one has to stand back and not try to be a hero. I think this is one of those times.

In any event, take a look at the graph below, it is the MSCI Greek Small Cap Index (orange) and Athens Top 20 (purple) Indices, in USD terms and indexed to 0 as of 2001.

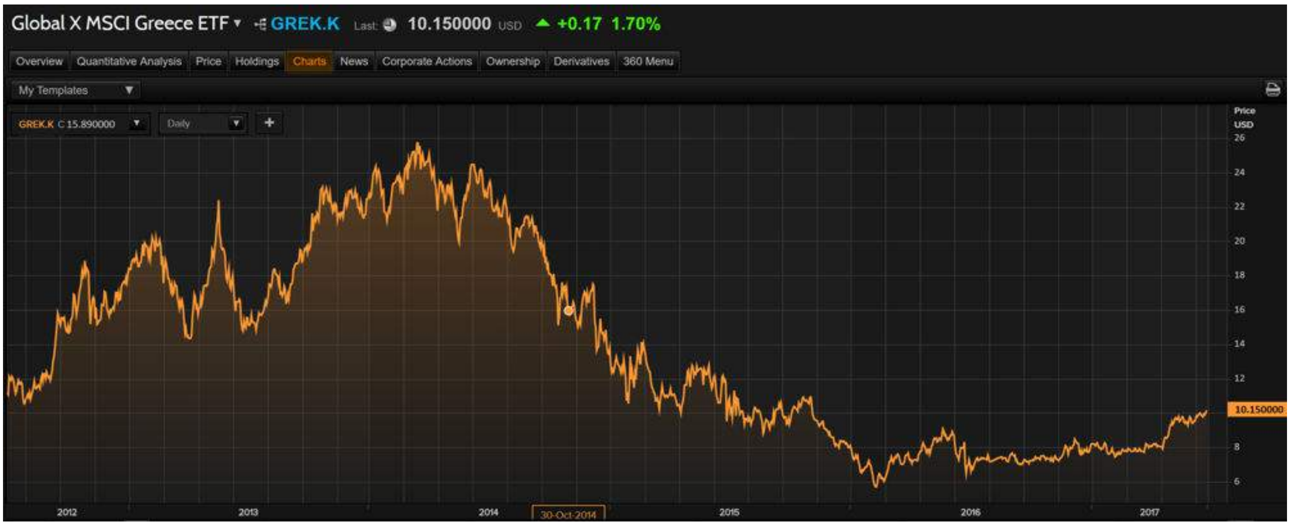
Apart from the last couple of years, they essentially tack each other. So unless you are really connected, there seems to be little upside in trying to stock pick. By upside I mean beating the market, so if you can't beat 'em, join 'em.



There are two ETFs that are available to gain exposure to the Greek stock market. The first one, The Global X MSCI Greece ETF (GREK), trades on the NYSE and the second, The Lyxor FTSE Athex Large Cap UCITS ETF (GRE), trades on the Paris bourse. Apart from one being in USDs and the other in euros they are essentially the same, with one exception. Lyxor FTSE Athex Large Cap UCITS ETF has Coca-Cola HBC AG (EEE) included whereas The Global X MSCI Greece ETF doesn't.



Which ETF to go for? My choice is GREK because it doesn't have Coca-Cola included and Coca-Cola (EEE) isn't dirt cheap anymore.



Exposure

Given this trade covers a stock market – as opposed to an individual stock – I think an exposure of up to 5% of capital wouldn't be the craziest idea.

Time Frame

I'm thinking at least 5 years for this trade. Buying this will be the easy part. The waiting will be the hardest.

I always feel "weak and worthless" as a deep value investor when I suggest buying in index-tracking ETF like The Global X MSCI Greece ETF. But in certain circumstances (like now) when everything is cheap and it is hard to decide which stock offers better value, it just pays to go with an index-tracking ETF.

But I still feel more fulfilled as an investor to at least pick a few stocks which I believe make sense. Below I'm going to list a few ideas that more discerning/experienced value investors might like to look into with a lot more detail.

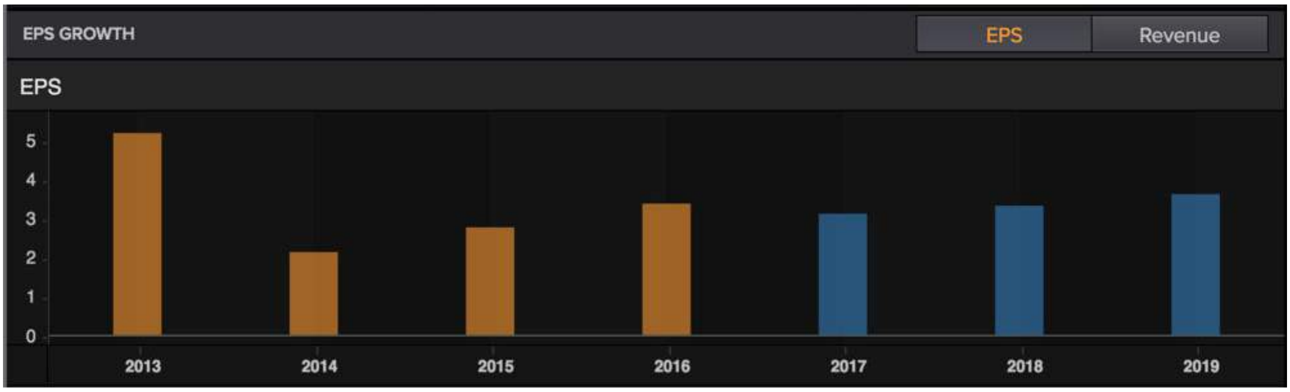
I'm not going to paint a wonderful story on these stocks, as it isn't my role to sell anything to anyone but rather to highlight ideas (which I don't think are stupid) to subscribers that you are unlikely to find anywhere else (if you can find another investment newsletter suggesting Greek stocks, then let me know).

Folli Follie (pink sheet: FLLIY)

Recognize this brand?

It is a luxury goods retailer and it is Greek, but with about 70% of its sales in Asia so it's not specifically a Greek play. I can show you a chart which doesn't look like the sort of setup I typically go for:

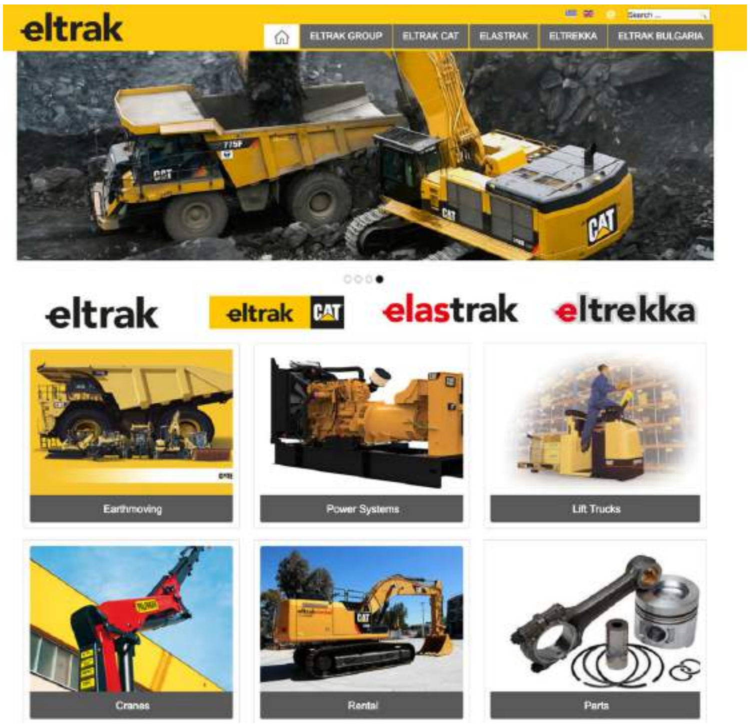
That is interesting though is the following. Follie Follie sports a P/Book of 0.75x, a P/E (actual and forward) 6x, ROA of 9.5%, ROE of 13%. Here are expected earnings:



What I do believe is that if this company was listed on another exchange, almost any other exchange, it'd be trading at a much higher valuation. If we're right and investors start coming back into Greece and looking at equities on the Athens exchange, then value investors will have a field day with this one. One caveat I'll point out before moving on is that although the founder owns a significant amount of stock this is a family business. The management team is stacked with family members. This can be (not always) a red flag. You know what they say, blood is thicker than water. Once again, I'm not suggesting any impropriety, just pointing out a concern that may be worth investigating further if you're looking to get involved.

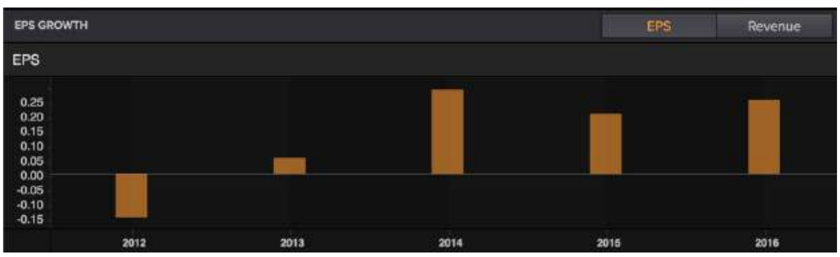
ELTRAK (only available on the Athens exchange)

Chinese OBOR is going to require construction, and a lot of it. Who better to participate than CAT machinery? Eltrak has the agency for Caterpillar in Greece.



Now this is the sort of long term chart setup I like:

Now, wouldn't you naturally think that a company selling CAT gear in Greece (or any heavy construction or earth moving machinery for that matter) would be on its knees with a stock price materially lower than when the Greek dramas first became well telegraphed in 2011? Well, not so. This is the highest that Eltrak's stock price has been in 7 years.



Take a look at its valuations: P/Book 0.44x, P/E 8.5x, ROE 5.30%, and ROA 3.2%. All I will say is this stock is very cheap, in a silent bull market, and nobody's looking.

Mytilineos

Best described as an industrial conglomerate. Recently formed out of a merger between construction company METKA, Aluminium Company of Greece, and electricity producer Protergia.

You might like to consult Mytilineos's website for a detailed description of exactly what they do, but for a quick summary:

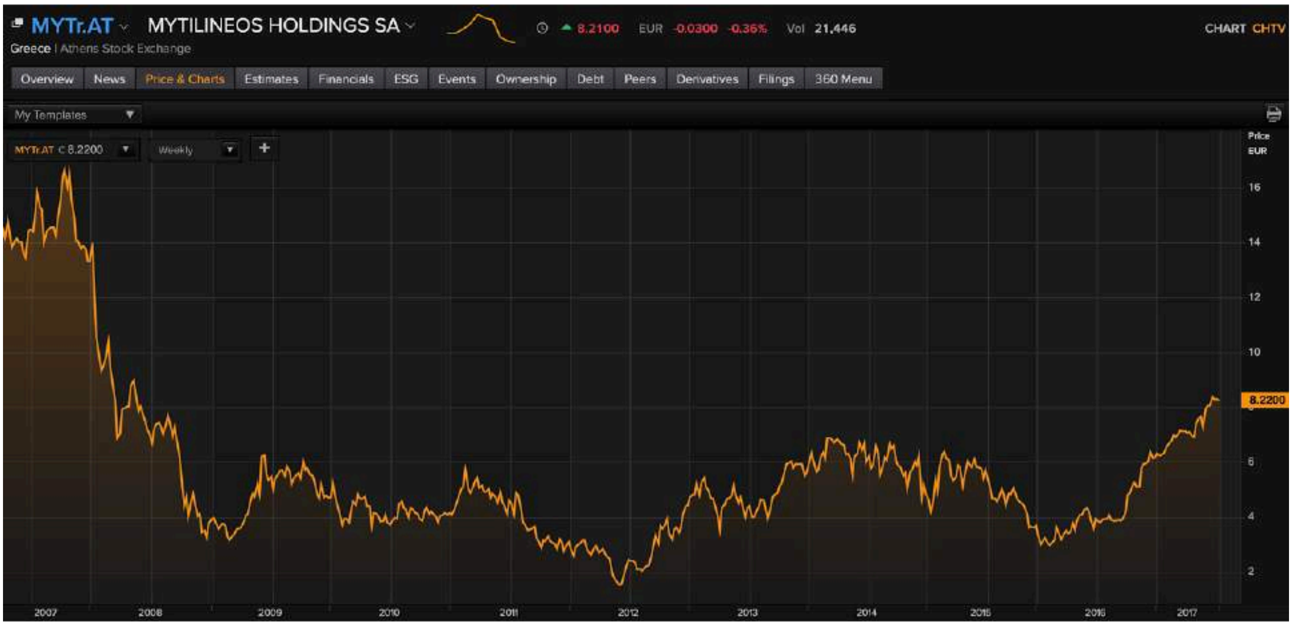
- METKA is one of the mediterranean's premier engineering and construction firms
- Alu Co of Greece is Europe's biggest Bauxite and Aluminium producer
- Protergia is Greece's biggest independent Electricity producer

Here is official blurb from Reuters:

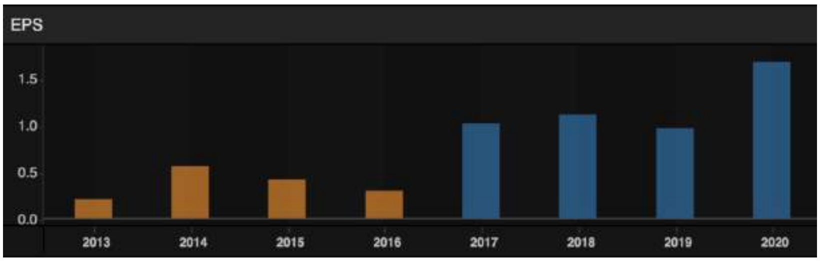
Mytilineos Holdings SA is a Greece-based industrial group, which operates in the metallurgy; Engineering, Procurement and Construction (EPC); energy, and defense sectors. It operates in the following business segments: Metallurgy, Constructions and Energy. The Group is active in energy projects, infrastructure projects and defense equipment manufacturing. In the Metallurgy sector, the Company produces alumina and aluminum through the exploitation of bauxite deposits, as well as operates Delphi-Distomon SA, which is engaged in the production of bauxite. In the Energy sector, the Group operates as an independent electricity producer, as well as owns M&M Gas Co. SA, which is engaged in the trade of natural gas, both pipeline and liquefied natural gas (LNG).

In terms of its geographical segmentation about 50% comes from Greece and 25% greater Europe. Given that we have been led to believe that Greece is in a great depression and Europe isn't far out of a recession, you wouldn't expect that this company's stock price would be trading at an 8 year high. But it is, and you could/should/would have picked this company up for €2 in 2012 or €4 some 18 months ago.

Bull markets creep up on folks when they least expect!



What is rather impressive is its profitability in light of the "tough" times in Greece and Europe. It valuation: P/book 0.97, forward P/E 8x, ROA 2.1%, ROE 3.8%, and over the last 5 years, it hasn't had a losing year (from a net profit perspective).



If there was just one stock to bet on Greece recovering from the abyss, then my thinking would be Mytilineos is your one stop stock.

These are just three ideas. There are many more companies which are profitable, with respectable ROEs, trading well below book value, and with stock prices that look like they want to explode higher.

As discussed above, the biggest problem is there is so much value, it is quite difficult to know which ones to pick.

Disclosure: The AOF fund owns both GREK as well as Alpha bank and has done so for many months now.

Sincerely,

Chris MacIntosh

Founder & Editor In Chief, Capitalist Exploits Independent Investment Research
Founder & Managing Partner, Asymmetric Opportunities Fund

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