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THE BIG SECRET ON WALL STREET

Turn On, Clock In, Clock Out

- Employees "Can't Quit" This DIY Payroll Software
- A Boring Business Quietly Compounding at 30%

FROM THE DESK OF PORTER STANSBERRY

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#42

Turn On, Clock In, Clock Out

Employees "Can't Quit" This DIY Payroll Software

A Boring Business Quietly Compounding at 30%

To Suzanne Davis, Amazon's new "same-day delivery" service sounded like a lifesaver.

The reality was… it could have killed her.

Fortunately for her, Suzanne wasn't home on June 19, 2016, when an Amazon package was delivered *directly* into her dining room… via a truck that crashed through the front wall of her house.

As documented in subsequent court proceedings against Amazon, Suzanne's Dallas residence "sustained severe structural damage to the interior and exterior of the home, foundation, dining-room window, exterior brick, inside wall near the window, shrubbery, outdoor lighting, and sprinkler systems," to the tune of some $140,000.

But technically, Amazon wasn't even responsible.

The retail giant wasn't liable for the actions of Oladaya Anipole, the delivery driver who'd mistaken the accelerator for the brake, and then backed out of Suzanne's gutted dining room and attempted to flee the scene. (Worse, he was still behind the wheel although he'd been in another traffic accident the week prior.)

Anipole was driving a truck full of cardboard boxes with smiling arrows on the side. But he wasn't an Amazon employee. As Suzanne's lawsuit revealed, he actually worked for a third-party trucking company called Inpax – one of many independent "partners" in Amazon's opaque army of contract delivery trucks.

Turns out, there's actually no such thing as an "Amazon driver." There are just third parties that contract with, and make deliveries for, the online superstore. Amazon pays these trucking companies (known as Delivery Service Partners, or DSPs) to deliver instant coffee and toilet paper to your doorstep (or, in Suzanne's case, through your wall).

Amazon provides the trucks, uniforms, and training (and quotas to fill), and the DSPs hire the drivers and handle all the pesky details like wages, insurance, healthcare benefits, payroll, and bathroom breaks.

At least, they're *supposed* to handle these details…

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Buy Now, Pee Later

In reality, DSPs have just one priority: Keep Amazon happy by delivering 250 packages, per truck, per day… thanks to drivers who work 12 to 15 hours straight and deliver 25 packages an hour (one every 2.4 minutes). One trucking firm, TL Transportation, enforced such a punishing schedule that drivers didn't have time for bathroom breaks, and had to urinate in water bottles. (Have you ever really thought about what happens after you click that magic "Buy Now" button?)

It's not surprising that Oladaya Anipole drove through Suzanne Davis's wall. Perhaps he had to pee… really badly.

For all that agony, you'd expect these drivers to be paid competitively… but you'd be wrong.

The *worst* thing about the initial DSP model – according to a slew of drivers that *Business Insider* interviewed in 2018 – was rampant wage theft.

Inpax – Oladaya Anipole's employer – was repeatedly cited by the Department of Labor for withholding pay from its drivers. Prime EFS, another trucker, refused to pay employees the owner didn't like. Many of the smaller contracting companies handled their payroll manually, without outside oversight – and often stiffed drivers of thousands of dollars in wages, on purpose.

TL Transportation, for instance, paid a flat rate of $160 a day, which they claimed covered eight hours of work plus two hours of "automatic overtime." A court ruling against TL objected that this was wage fraud: "Overtime compensation must be specifically linked to the hours an employee actually worked."

And employees who did work more hours simply didn't get paid at all…

One TL driver put in eight hours a day, seven days a week… plus 30 hours overtime. Her pay stub only showed the flat rate of two hours of "overtime" per day. Another employee worked 13 hours every day… and still took home the same flat rate of $160. This sad tale was repeated across many, many DSP trucking companies – and documented in a series of exposés in *Vice* magazine and *Business Insider*.

Eventually, bad publicity started to move the needle… a little.

In 2017, a group of disgruntled drivers banded together to launch multimillion-dollar class-action lawsuits against both their DSP direct employers and Amazon.

Amazon still refuses to admit any wrongdoing, but has agreed to pay a group of Seattle-area drivers (the ones who had to pee in bottles) an $8.2 million settlement. Amazon has also been directed to fork over $6.4 million in a separate, ongoing California wage-theft lawsuit, but (again claiming innocence) is appealing the case.

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In the meantime, in 2018, Amazon quietly cracked down on wage fraud by requiring its DSP contractors to use real, professional payroll software.

The trucking companies now electronically track and record drivers' hours with HR-friendly computer programs that track and monitor paychecks... ensuring that employees work a reasonable number of hours, clock in and out at accurate times, and get paid for the actual overtime.

And – not surprisingly – the wage-theft lawsuits have slowed down, too.

It's not a bathroom break, but at least it's a start.

In this issue, we'll be exploring one of the payroll software companies that's saving Amazon Prime (and many other businesses).

The company is a leading provider of human capital management ("HCM") software. The company's innovative products deliver significant time and cost savings for human-resource ("HR") departments, by automating things like payroll processing, benefits management, and expense reports.

The company's technological leadership has led to rapid market-share gains from its larger and more established rivals. Its lean cost structure has translated into world-class 85% gross profit margins, and a highly capital efficient business model with 27% returns on equity ("ROE"). The stock has delivered 30% compounded returns a year for investors since it went public in 2014.

Controlling only 5% market share today, the company has a long growth runway to continue delivering market-crushing returns.

It all started with a scrappy 27-year-old, who bootstrapped the business with 14 personal credit cards.

Bringing Payroll Into the Digital Age

Paycom Software (NYSE: PAYC) is the third-largest human capital management ("HCM") software provider in the U.S., with $1.6 billion in sales last year. It's also the fastest growing company in its industry, increasing revenue 12x since going public. Headquartered in Oklahoma City, Paycom is run by its founder and CEO Chad Richison, who owns 8% of the shares.

Before launching Paycom, Richison was a salesman for Automated Data Processing (ADP) in the mid-1990s. While ADP enjoyed a dominant competitive position as the proven and trusted brand name in the HCM industry, its business model had not evolved much since its founding 75 years ago.

At the time, the primary function of most HCM companies was payroll processing. Despite the rise of computer technology and the internet, the legacy HCM

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providers like ADP ran their businesses using paper forms. This meant employees and HR administrators had to manually fill out multiple worksheets for each payroll run – a laborious, time-consuming task.

Richison (below) saw an opportunity to bring the industry into the digital age. His founding vision was to create the first software-based payroll system that could be managed over the internet. He launched Paycom in 1998 – and struggled to make it work early on. Hiring software engineers at the height of the dot-com boom wasn't cheap, and Richison had limited access to outside capital.

Richison self-funded the start-up by selling his home, cashing in his 401k, and taking out a $225,000 loan from the Small Business Administration. Within 18 months, he had burned through this initial capital, and had maxed out 14 personal credit cards to keep the business afloat.

Working with limited funds forced Richison to create a lean, scrappy business model (an approach that remains core to the company's DNA today). Richison became the company's primary software programmer, designing every page of the company's online interface.

After developing the product, Richison then became the company's lead salesman, going door to door to pitch businesses in Oklahoma City. But he faced a classic chicken-and-egg dilemma when trying to sign up his first customers. Since Paycom had no track record or existing customers, few businesses were willing to gamble on a new payroll system from an unproven company.

In Paycom's first year in business, Richison didn't sign up a single customer in the company's hometown of Oklahoma City. Undeterred, he expanded his search into smaller nearby towns, like Stillwater (population: 48,000). There, he ran into a second major obstacle: most of his prospects had no idea what the internet was, let alone

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how to use it. Before he could make a sale, Richison first had to show his potential customers how to access the internet, as he recalled in an **interview** last year:

> *"For 90% of them, not only was it the first time they had used a web product, it was the first time they had seen the internet... I would get on my hands and knees to unplug their fax, pop in an AOL or Prodigy diskette, open up Netscape and introduce them to the internet and subsequently our software."*

Despite these hurdles, Richison's doggedness as the CEO-salesman (and internet installer) resulted in signing up Paycom's first 400 clients. This provided a critical mass that established credibility for future prospects, while also generating enough revenue to hire a sales team. Paycom reached cash flow breakeven by 2001, setting the stage for rapid expansion throughout the next decade.

A Do-It-Yourself Strategy

The competition followed Paycom's lead by bringing their own payroll systems online. But Paycom stayed at the leading edge of innovation, including introducing the industry's first mobile app in 2007. Competitors followed by launching their own mobile apps. However, there was one aspect of Paycom's business model that its competitors never replicated.

As the HCM industry entered the online era, Paycom's competitors often expanded their digital capabilities by acquiring other companies. They also outsourced key aspects of their business, like data management and storage. But Richison believed outsourcing led to inferior products and service, so Paycom built every aspect of its HCM system internally. Throughout its entire 25-year lifespan, the company has never made a single acquisition. And Paycom's internal engineering team has written every line of software code.

At first, this do-it-yourself (DIY) approach arose from the sheer necessity of running a cash-strapped business with virtually no outside capital. But even as the business began making money, Richison remained adamant about building every aspect of Paycom's HCM system in-house.

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A Data Storage Center Fit for the Apocalypse

As the HCM industry moved online, companies needed a way of storing their customer's digital data. Most choose to outsource data storage to third parties, like Amazon Web Services. But Richison refused to run Paycom's software through an external vendor. In 2011, he embarked on one of the company's boldest DIY efforts yet: constructing a massive server farm in the basement of Paycom's Oklahoma City headquarters.

Since the integrity of customer data is critical, Paycom invested into a series of safeguards fit for an apocalypse bunker. This includes flood and tornado proofing, complete with FEMA (Federal Emergency Management Agency) certification. The facility has a 24/7 police presence and seven generators with enough capacity to power a small town. As the final fail-safe, PayCom also invested in back-up servers in Grapevine, Texas, that replicate all of the data at Paycom's Oklahoma headquarters in real time.

In the short term, Richison's extreme insourcing efforts diverted precious cash flow from the business and depressed profit margins. He received pushback from employees and investors, like Jeff York, who trained Richison in sales at ADP before joining Paycom in 2002. As York recalled in *Forbes*:

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> *"I had some contention with Chad... should we be doing what everybody else was doing, partner and connect software and integrate? He was just resolute in the fact that we're never going to put another company in between us and our customer because we don't control that."*

Richison saw deep flaws in the traditional industry approach of relying on third-party vendors and multiple systems cobbled together from acquisitions. This created a messy patchwork of systems that don't integrate well together, limiting product functionality and ease of use. At a 2023 technology conference hosted by investment bank Baird, Richison explained how Paycom's approach gives it a leg up against its largest competitors:

> *"And the largest companies in the world have the worst systems... they're terrible. They're the eight-legged octopus with no head... your data is in multiple systems, they don't work together and they're not good at integrating it. So we believe in replacing all of that with one system that's highly functional, highly configurable, and is a very simple product to use."*

Paycom's DIY approach ultimately gave rise to the industry's only fully integrated HCM software system, where every application runs on a single, unified database. This enabled the company to develop a suite of innovative software that brought new levels of automation and time savings for HR departments and employees.

Innovative Software Solutions

Paycom's software helps automate tasks for HR departments, while also helping protect both employers and workers against things like wage theft. The company's pricing model includes both recurring fees for software subscriptions, as well as per-use pricing for things like payroll processing – where it charges a fixed amount for each employee that gets paid on each payroll run.

The key drivers of Paycom's revenue growth come from signing up new customers, and selling an increasing array of innovative products that improve and automate HR tasks. Here's a few notable examples of the company's products...

- **PayCom's Time and Attendance** application enables employees to digitally clock in and out with a variety of devices including finger scans, badge swipes, or mobile app. This app is linked to Paycom's payroll software, and automatically tracks employees' work hours.
- PayCom also offers **geofencing and geotracking software** enhancements to its Time and Attendance application. These features allow employers to set pre-defined geographical regions where employees are authorized to clock in and out. This helps safeguard employers against the "time theft" – when employees digitally clock in before actually arriving at work. It also protects employees against wage theft, by appropriately tracking employees and properly compensating them for hours worked (helping prevent abuse from unscrupulous employers, like TL Trucking that delivers Amazon packages).

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- **Paycom's Schedule Exchange** system automates the process of adjusting and approving work schedules. This tool automatically sends email notifications to employees when shift schedules are created. Employees then have the ability to accept or decline proposed shifts. The software also allows workers to view any extra shifts that might be available to pick up, and allows for shift swapping with other employees. Once a schedule has been approved, the software syncs with Paycom's Time and Attendance and Payroll applications to automatically log hours worked.
- **Paycom's Time-Off Requests** software creates a standardized, automated solution for ensuring employers remain well-staffed. Employees can input time-off requests into a digital calendar, where managers can easily approve or deny requests. The software allows employees to see how much time off they have, as well as any blackout dates on the calendar. Compared with the traditional process of sending several emails back and forth between employees and managers, this system automates requests, while keeping all of the relevant data contained in a single database.
- **Paycom's Expense Management** application eliminates the manual process of employee expense reporting and reimbursement. The system allows managers to implement predefined rules and parameters based on the company's reimbursement policy, providing an automated solution to the approval process. In this way, employees can upload photographs of receipts into the software for automated reimbursement approvals. The software is also synced with Paycom's payroll-processing software to automatically pay out approved requests. Finally, the software can also integrate with a company's accounting system to directly incorporate approved expenses into a company's general ledger, eliminating manual work of expense tracking for accounting departments.

These are just a few examples of the more than 40 software tools Paycom offers. The common theme throughout its product suite is the high level of automation created by integrating software functionality and data sharing across multiple applications. This automation is only possible thanks to Paycom's fully integrated HCM system, where every line of code runs through a single, unified database.

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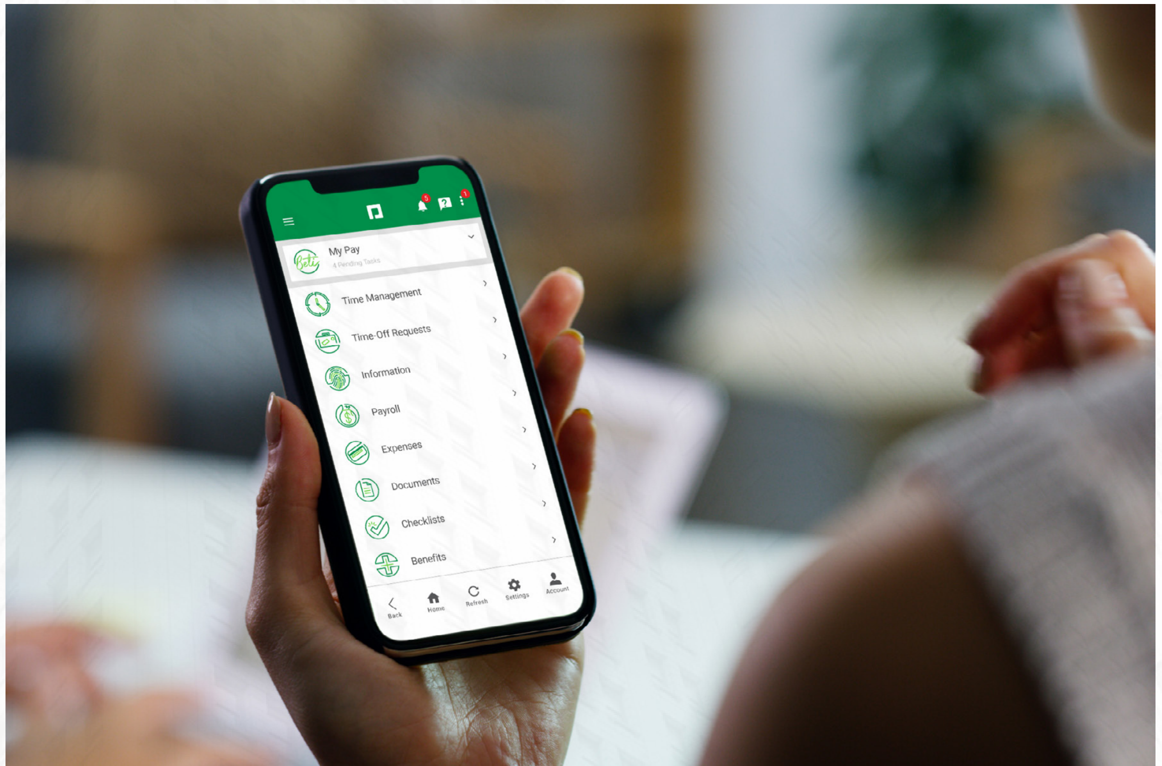

The end result for employers is massive time savings, by relieving HR administrators of manual processes needed for legacy HCM systems. The benefit for workers is that Paycom's software bypasses the slow and bureaucratic process of going through middlemen administrators. Employees can control their own data to ensure they're properly getting credited for hours worked, rapidly reimbursed for expenses, and quickly approved for schedule changes and vacation requests.

The countless hours saved by freeing up HR departments from manually processing these tasks adds up to a big bottom-line boost for Paycom's clients. The final advantage of Paycom's unified HCM system is that it enables the precise measurement of the time and cost savings created from its software.

Measuring the Tangible Benefits of Its Software

In 2019, Paycom introduced a software application known as Direct Data Exchange (DDX). The DDX tool captures the number of data changes within Paycom's HCM system, and distinguishes between those performed by an employee instead of an HR administrator – with the objective being to have employees, rather than administrators, make inputs.

Richison's goal is to reach a DDX of 100% across its client base. This would mean that employees rather than administrators make every data adjustment in its HCM system – whether in payroll, benefits, time-off requests, or anything else. The

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company is well on its way to that goal, currently generating an average of 95% DDX across its client base.

To further clarify the benefit for its customers, Paycom hired auditing firm Ernst & Young (EY) to estimate the cost of each data change performed by an HR administrator. EY's analysis showed a direct cost of $4 per data change (and up to $18 when factoring indirect expenses, like the liability associated with data errors made by HR departments).

Richison has estimated that the average mid-sized company will typically make about 400,000 HCM data changes per month. Since Paycom eliminates more than 90% of these data entries from HR departments, this adds up to cost savings of about $18 million a year for the average mid-sized businesses Paycom targets.

Richison estimates the average client fully pays for switching to Paycom software within four months. While every client has a different return on investment ("ROI") proposition, the DDX tool provides a tangible measurement that can justify the switch to Paycom's software. Equally important, the high ROI of Paycom's software for HR departments ensures that once clients switch, they stick with Paycom. Over the last three years, Paycom has averaged a 93% retention rate (the percent of existing customers who remain with Paycom versus switching to competitors), the highest among all of its top competitors.

Employees Just Can't Quit Paycom's Software

Whereas most HCM providers fixate on developing software for HR departments, Paycom places a heavy emphasis on delighting the end consumer of its technology: employees.

It all starts with Richison's maniacal focus on usability. As he often explains about the company's software, "*If one of my grandparents couldn't use it, it doesn't work*."

During the development phase of new software or mobile apps, Richison requires that Paycom's research-and-development (R&D) staff go into the field and observe truck drivers or retail clerks using trial versions of the product. If these ground-level employees have trouble navigating the user interface, the product design team goes back to the drawing board.

After employees adopt Paycom's easy-to-use software, many don't want to go back to the legacy HCM systems. For example, when employees switch jobs and lose access to Paycom's software, these employees now push their new HR departments to adopt Paycom's software. That's how Paycom has received thousands of business leads direct from employees lobbying for its products to their HR managers, as Richison described at the Baird Technology Conference in June 2022:

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> *"As employees get used to it, nobody does well going backwards in technology. I start taking technology away from you, that's a problem for you... And so for the first time in probably – we've been seeing this for about 2.5 years now, where rank-and-file employees, a truck driver, a sales clerk... they're bringing us into these companies... We had zero referrals from employees five years ago. Now we get thousands of leads."*

By delivering powerful cost savings for HR departments, and delighting consumers with its seamless software interfaces, Paycom has emerged as the fastest growing HCM provider in America. Much of this growth has come from taking market share from its two largest, most entrenched competitors.

Rapid Growth Eats Away at the Competition

Since Paycom's founding in 1998, four companies have largely dominated the HCM-software market. These include the industry leader ADP, founded in 1949, which generated $18.3 billion in sales last year. Paychex, founded in 1971, is number two with $5.2 billion in annual sales. Paycom is number three, with $1.6 billion in annual sales.

Paycom faced an uphill battle going up against these well-established brands early in its history. But over the last decade, it has aggressively taken market share from its rivals thanks to its technological leadership and product innovation. Commentary from Paycom's management, as well as third-party analysis from investment research firm Morningstar, indicate that roughly half of Paycom's new customers were former customers of Paychex or ADP.

These trends show up in each company's revenue trajectory. Since going public in 2014, Paycom has grown its revenues by roughly 1,200%. Meanwhile, ADP and Paychex have each grown by less than 100% over the same period:

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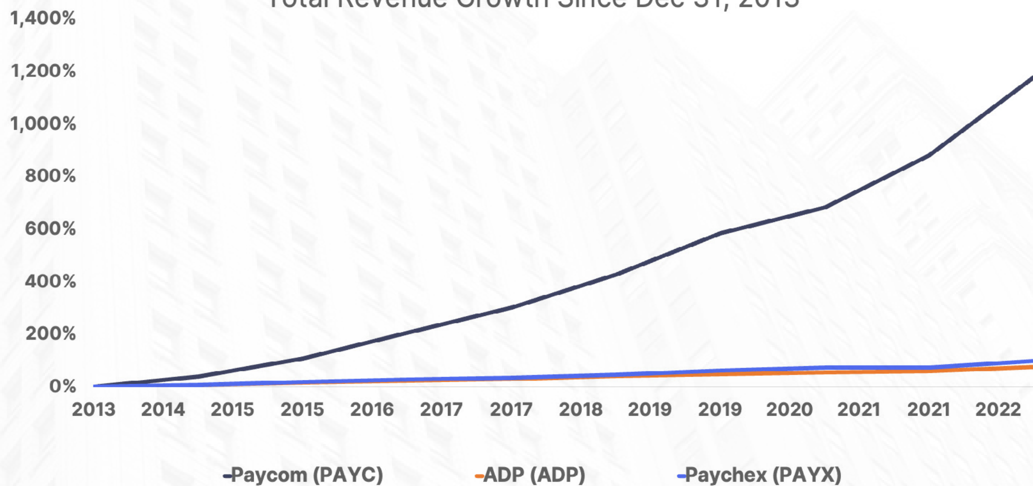

Another key competitor, Paylocity, was founded in 1997, one year before Paycom. But Paycom has grown faster, reaching $1.6 billion in sales last year, without acquiring another company, while Paylocity's growth to $1.2 billion in revenue is the result of five significant acquisitions.

We previously noted how Paycom's insourcing strategy enabled it to develop innovative software that offers high levels of automation and seamless user interfaces. Another key advantage of Paycom's DIY approach is a lean cost structure. By building its own data servers, Paycom avoids sending vast sums to Amazon or Microsoft for cloud storage.

Paycom's insourcing efforts have led to best-in-class 85% gross margins (percent of net revenue, after subtracting the direct costs of producing its products):

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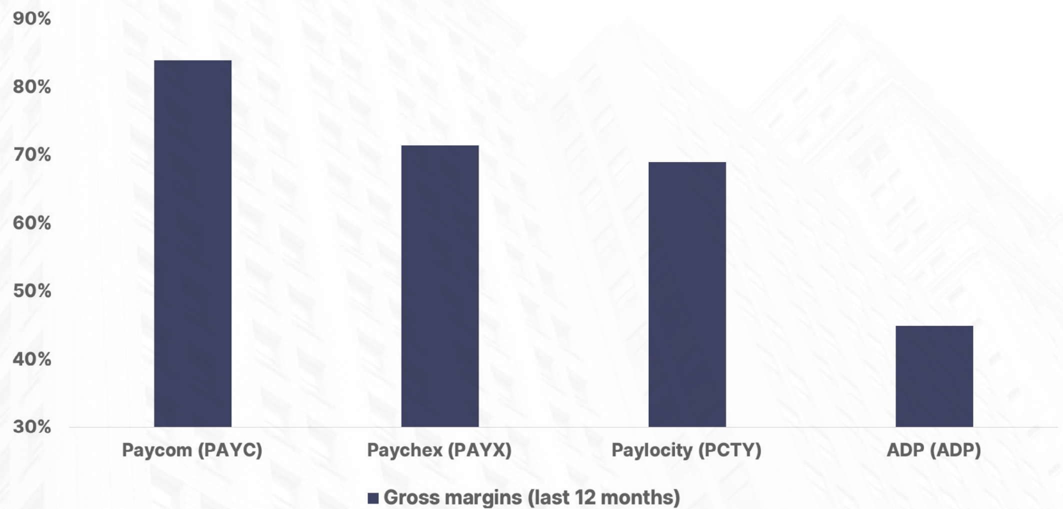

Gross margins are an important metric for fast-growing companies like Paycom, because it represents top-line profitability that excludes expenses further down the income statement, like staffing and marketing costs. During periods of rapid growth, companies must hire staff to develop and market new products before receiving the benefit of future sales. As a result, net margins can often be temporarily depressed during a phase of rapid growth.

However, Paycom has not had that problem. Even with the company's rapid annual growth rate of more than 30% over the last decade, Paycom has achieved a world-class 20% net profit margin in recent years. That puts Paycom on par with industry-leader APD, and nearly twice Paylocity's 12% net profit margins (its fast-growing peer). Among its top competitors, only Paychex generates higher bottom-line profitability than Paycom, with 31% net income margins:

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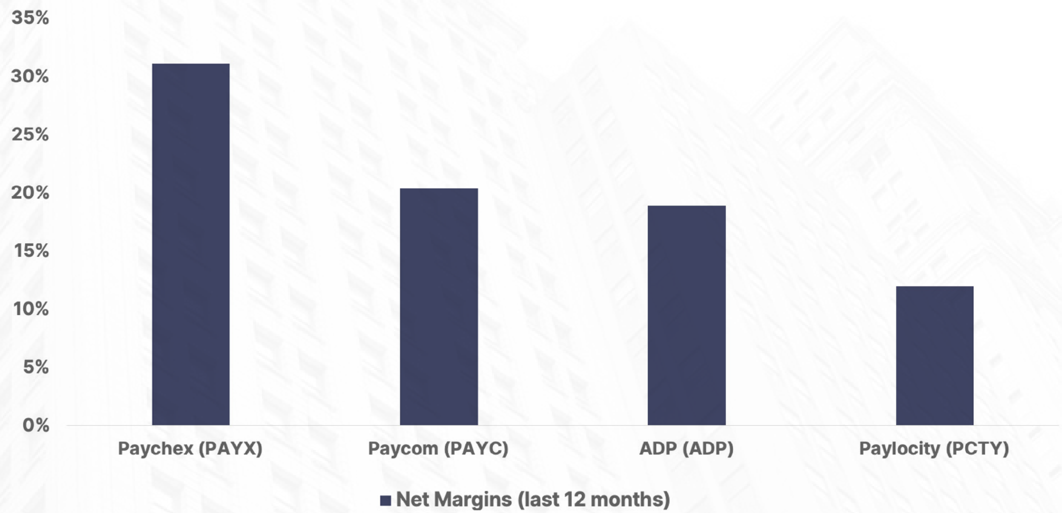
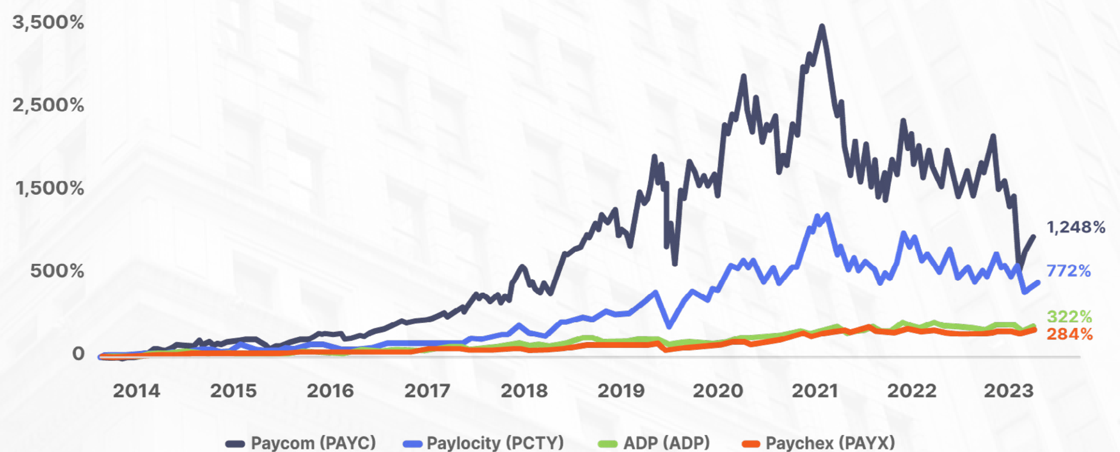


Since Paycom's IPO in 2014, the company's shares have delivered 30% compounded annual returns, or a total return exceeding 1,200% – nearly double Paylocity's 670% return, and almost 4x the 353% return for ADP and 309% for Paychex over the same time period.



Source: Bloomberg

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Looking ahead, we see an opportunity for Paycom to continue outperforming its peers. This will come from a combination of further market-share gains, and expanding profit margins. Paycom already generates the highest gross margins in the industry. The key operating expense between gross and net income is labor.

Here again, Paycom employs an insourcing strategy that gives it a competitive advantage for driving maximum output from its labor force.

Paycom's Labor Cost Advantage

Like every other aspect of Paycom, Richison prefers to build his labor force internally. He refuses to pay up for high-priced industry veterans or outside consultants.

Consider his approach to hiring sales people. In the HCM software industry, it's common practice for companies to generate business using outside sales agents. Paycom does not hire third-party brokers, and avoids hiring anyone with more than two years of sales experience in any industry. And Richison famously refuses to hire sales staff from competitors.

Part of the reason for this approach is that Richison has developed his own sales strategy – the one he used to close the company's first 400 clients as an unproven start up. And it's typically easier to train someone from scratch rather than fight bad habits picked up elsewhere. But it's also about creating a culture where employees rise through the ranks based on merit, rather than pedigree.

In a 2009 interview with the **The Oklahoman**, Richison explains how Paycom's "hire from within" approach has been a key part of the company's success:

> *"With Paycom, everybody who's there has worked their way up. We haven't hired anybody from the outside ever to come in and be a manager. They all worked themselves up from the bottom, and that includes me... My dad told me, 'You don't manage the truck drivers lest you drove the truck.' From that day on, I changed our strategy at Paycom to hire from within, and we don't put managers over people if they haven't been in the trenches and done that job... That was great advice and things started clicking for us at that time.*

This is part of the culture of meritocracy Richison has instilled at Paycom, where results matter above all else. And just like he's done for Paycom clients with things like DDX, Richison has created a series of systems to measure results with precision and transparency.

At Paycom's offices, the company uses wall-mounted TV screens to post real-time performance metrics for employees in every department. In the sales office, the screens track things like call volumes and response times to inbound leads. Screens in the R&D department track the number of lines of code written by software engineers.

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This aggressive culture lies in stark contrast with the often-laid back attitude of Silicon Valley tech companies, as one analyst from Guggenheim Partners describes:

> *"In Silicon Valley they have bean bags and beer on tap... Paycom is much more intense, with a hard-charging culture of go, go, go all the time."*

The results show up in Paycom's product innovation and growth rates, as well as through various measures of internal progress. Richison provided an example of how Paycom's sales staff has become more productive over time at a conference held by investment firm KeyBan in August 2023.

He noted that in 2014, the city with the most Paycom clients brought in about $3.5 million in sales that year. This required the efforts of an entire sales team. By 2017, one Paycom sales rep cleared the $1 million mark in annual sales. And by 2022, the company's highest-performing salesperson closed over $3 million in deals. He further noted that in 2023, several sales reps were closing individual deals of between $2 million and $3 million.

The growing productivity of Paycom' sales staff is a big reason why Paycom's net-income margins have expanded from roughly break-even in 2013 to 20% last year. It's also contributed to the business becoming increasingly more capital efficient, with Paycom's ROE growing from 2% in 2013 to 27% last year.

A Very Loyal Workforce

Another labor cost advantage Paycom enjoys is that its offices are located in the low-cost-of-living states of Texas and Oklahoma. That's not to say the company underpays its workforce. Paycom is well-regarded in the industry for rewarding employees with generous pay and benefit packages. This includes healthcare that can be purchased for $1. And a national workplace review website, Comparably, ranks Paycom as one of the "Best Companies for Compensation" and "Best Companies for Perks & Benefits."

Meanwhile, Chad Richison has been ranked among the top 100 CEOs nationally by Glassdoor, a service that reviews workplaces and CEOs based on anonymous employee reviews. His Glassdoor ranking puts him ahead of other notable leaders in the tech field, including Apple CEO Tim Cook.

The final testament to Paycom's successful culture is the long tenure of its executive staff. This includes Holly Faurot, who worked her way up from the sales floor in 2007 to become chief sales officer in 2021. CFO Craig Bolte has been with the company since 2006, and Chief Information Officer Brad Smith started at Paycom in 2005.

Paycom's ability to attract, develop, and retain top talent is the ultimate competitive advantage. It's the secret to Paycom's innovation, and an increasingly

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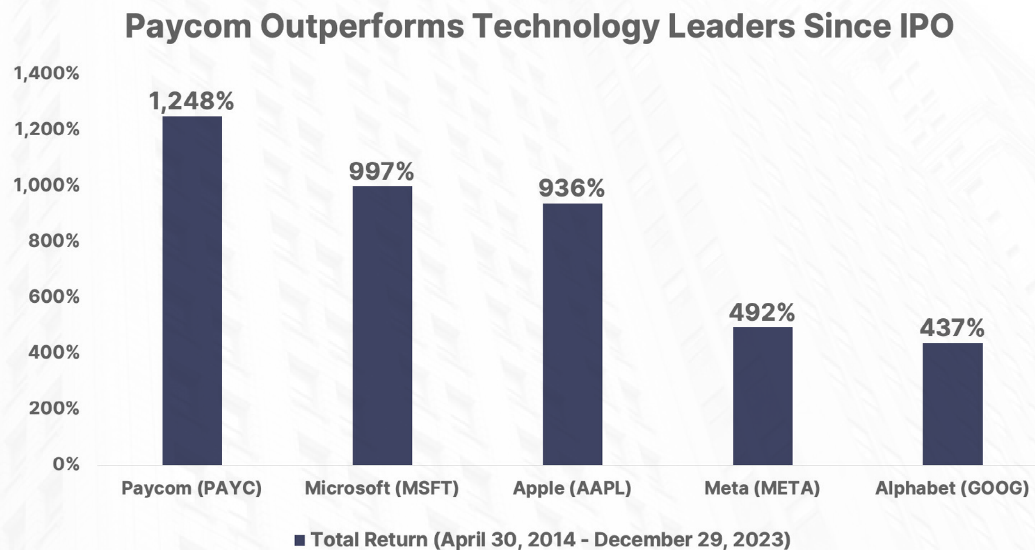
productive workforce, that's led to industry-leading growth and profit margins. The end result is a share price that's not only outperformed its fellow HCM peers, but also outperformed many of the world's most dominant, high-performing technology companies since going public in 2014:



As we will explain below, the strong stock performance has slowed, which now creates an opportunity to buy the shares. It's notable that Paycom's incredible returns over the last decade have come despite a 60% decline in its share price since 2021. Next, we'll explain what caused PAYC to drop – and why we believe it's setting the stage for a tremendous buying opportunity.

A Victim of Its Own Success

In July 2021, Paycom introduced a revolutionary software application that tackled the most burdensome HR task of them all: running payroll. With the launch of Better Employee Transaction Interface (BETI), for the first time ever, Paycom put employees in control of their own payroll.

To understand how BETI changed the game for payroll processing, let's first review how traditional payroll processing works. The HR department compiles the hours worked data – either directly from employees, or by pulling it from a digital timesheet or other software program – and then manually inputs that data into a payroll software. Given the amount of manual data processing involved, this is an error-prone process.

When payroll errors inevitably arise, like miscounting hours worked or paying the wrong hourly rate, employees don't realize the problem until after they're paid the

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wrong amount. This requires HR departments to go back and fix the problem, a costly and time-consuming process. For the roughly 60% of American workers living paycheck to paycheck, getting paid the wrong amount can wreak havoc on their lifestyle. And it exposes employers to labor and tax law violations.

With BETI, PayCom built an interface that empowers employees to input and manage their own hours – with oversight from managers and HR departments. BETI provides employees with a real-time window into their hours worked, their pay rate, and their earnings as the pay period progresses. In this way, BETI allows errors to be identified and fixed before running payroll. It also removes the need for HR administrators to gather data from employees and input into their payroll system. As Richison explained, this employee-centric model fundamentally changes how payroll is processed:

"In the simplest of terms, the data transfer model has changed in our industry, and what I mean is the data transfer from an employee into a system. Traditionally, that model has been run by HR and payroll, who would transfer the data from the employee into multiple systems... In our model, the ownership of those tasks are at the employee level. So basically, what we do is we remove the payroll and HR administrators out of that data transfer model, which increases that integrity within the system and allows us to automate a lot more for them."

BETI is a win-win for employers and employees. Paycom has compiled a long list of case studies and rave reviews from companies that have adopted BETI. Notable highlights include the following commentary from a VP of HR for a car-rental firm, who says:

> *"BETI is the most revolutionary product I've ever seen."*

Another Paycom client in the skin-care industry reported a 93% reduction in the hours required to process its payroll. Others have cited a dramatic drop off in their payroll errors.

And that brings us to the not so good news. BETI has become so successful in eliminating payroll errors that it's caused a meaningful decline in the number of payroll runs Paycom processes for clients.

It's important to note that payroll processing is Paycom's oldest and largest business segment (all clients are required to run their payroll through Paycom in order to access its other offerings). For payroll processing, Paycom charges clients based on the number of employees in the system. The company also collects what it calls "services" and "unscheduled revenues," which include significant one-time fees for addressing errors and for re-running payrolls.

Paycom has rolled out BETI to its existing user base, reaching roughly two-thirds of its total clients by Q3 2023. On Paycom's October 31 earnings call, management noted that increased BETI adoption has resulted in clients enjoying fewer payroll

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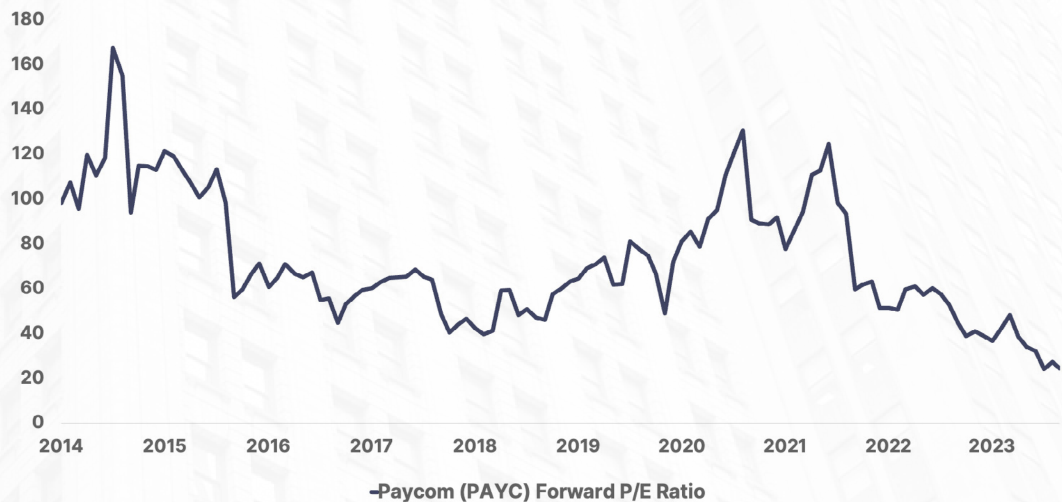
errors – resulting in a substantial decline in Paycom's revenue from correcting and re-running payrolls. Because of this, management downgraded its 2024 growth expectations to a range of 10% to 12% – or roughly half of its previous guidance of 20% annual growth.

The nearly 50% drop in growth expectations caused a mass exodus from Paycom shares. The stock price plunged 40% from $245 to $150 on the day after the earnings call, before rebounding to around $200 more recently.

To put this share price decline in perspective, Paycom earned $6 per share last year, and analysts expect it to earn $8 per share next year. Paycom now trades at a forward price-to-earnings (P/E) ratio of 24, the lowest in its history as a public company:



Previously, Paycom has traded at a rich valuation multiple of between 40 and 140 times earnings. This drop has provided a rare opportunity to buy a wonderful business at a reasonable valuation.

We're not overly concerned with Paycom's near-term growth downgrade. BETI is a game-changing technology that eliminates costly payroll errors. This should enable Paycom to continue signing up new clients and taking market share from rivals. In the short term, due to the nature of how Paycom charges clients, running fewer payrolls means less revenue from existing clients.

In our view, this seems like a solvable problem. The key fact is that BETI adds tremendous value to Paycom's clients. The company could change its pricing model, so that it's rewarded rather than penalized for reducing errors and running fewer payrolls.

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This could mean charging higher prices for BETI, or switching to a higher fixed-fee per payroll run. Plus, the company could introduce a tool similar to DDX that measures the amount of payroll errors run through its software versus alternative products – enabling HR departments to see the tangible benefits of its software versus competitors, and justify a premium pricing model.

It will likely take management at least several quarters to work out a solution for addressing the revenue cannibalization from BETI. But in the long term, this game-changing software should put Paycom in an even stronger competitive position to continue taking market share from its competitors. And that opportunity is vast.

The company currently has 36,000 clients, or about 5% of the U.S. market share for HCM providers. Its two biggest rivals, ADP and Paychex, have a combined 1.9 million clients. Given Paycom's technological leadership and track record of market-share penetration, we see a long runway of profitable growth ahead.

Even in a bear case scenario where Paycom fails to change its pricing model, and growth permanently downshifts from 20% to 10% per year, the shares would still offer tremendous value at current prices.

However, there's another major risk to Paycom's short-term growth outlook that the analyst community has not priced into their 2024 earnings estimates. That is, our expectation for a sharp recession and surge in unemployment in the coming months. In this scenario, we expect Paycom's earnings could suffer a significant drop, rather than merely a slower pace of growth.

As a result, we're putting the company on the watchlist today. We recommend investors wait to purchase Paycom when it trades below $150 per share. When the time comes to buy, we'll place Paycom in the Exponential Growth category of our model portfolio.

Action to Take: Add Paycom Software (NYSE: PAYC) to the watchlist to buy at $150 per share.

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New to the Porter & Co. Portfolio? Start With Our Top 3 "Best Buys" Today

Our goal at Porter & Co. is to bring you world-class investment research, focused on "inevitable" businesses that you can buy and hold forever. This is the surest and safest path to building permanent wealth.

While we don't believe in timing the market, we do keep a constant eye out for bargains. In each edition of *The Big Secret*, we highlight three current portfolio picks that are at an attractive buy point. We suggest you focus on these:

1. Howard Marks is the Warren Buffett of debt. **Oaktree Specialty Lending Corporation (Nasdaq: OCSL)** is a subsidiary of Marks' Oaktree Capital Management and is capitalizing on higher yielding private loans. OCSL makes primarily floating-rate loans to private middle-market companies. Because private companies aren't required to report the same level of disclosure as public companies, they are considered higher risk, and must pay higher rates to issue debt. OCSL's expertise in analyzing the risks of these private companies gives them an opportunity to capitalize on higher yields from these private market loans. The weighted-average yield on OCSL's debt portfolio is 12.7%, which the company returns to shareholders through an enticing 10.3% dividend. Best of all, OCSL offers a chance to capitalize on what's likely to be an explosion in the opportunity set for distressed-debt when today's credit cycle turns. Investors would also benefit if the economy remains strong and rates stay higher for longer, since 86% of OCSL loans are issued at floating rates.

2. **Franco-Nevada (NYSE: FNV)** – the **"Gold Digger" That Gets Paid to Do Nothing** – is the leading gold royalty company. Franco-Nevada provides financing for mining companies to do the capital-intensive work of pulling rocks out of the ground, in exchange for a percentage of the mine's output. As a result, Franco-Nevada is highly capital efficient, generating 58% free cash flow ("FCF") margins. Its world-class management team has established one of the best track records in the industry. FNV shares have sold off since October, when the Panamanian government shut down a large copper mine that is one of the company's largest royalty assets. The decline is overdone as the market capitalization of FNV has fallen by $6.1 billion while the mine is worth roughly $5 billion, effectively pricing in a total loss of the mine. Meanwhile, with gold prices approaching record highs above $2,000 per ounce, the rest of FNV's portfolio is firing on all cylinders. As a result, the shares trade near their lowest valuation on record. (We provided more details of the latest developments in a recent **Portfolio Update**.)

3. **Philip Morris (NYSE: PM)** owns the international rights to Marlboro, the world's leading traditional tobacco brand. Over the last decade, the company has

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invested heavily in less-harmful alternatives to traditional tobacco products. These investments have made Philip Morris the global leader in less-harmful nicotine consumption, including its hit IQOS and ZYN brands. Unlike most traditional tobacco companies suffering from declining sales, Philip Morris' smoke-free business is delivering double-digit revenue and earnings growth. The company is incredibly capital efficient, with 20% ROE and 40% returns on invested capital. It's also a recession-proof business, and trades at an attractive valuation of just 14x earnings, with a 5.7% dividend yield.

Portfolio Update

The Big Secret on Wall Street PORTFOLIO

ENERGY & COMMODITIES	Ticker	Description	Purchase Date	Cost Basis	Closing Price	Yield	Income Received	Total Return	Status	Risk Rating (1 - 5)
EQT CORPORATION	EQT	U.S. Gas-Focused E&P	06-02-2022	$48.87	$35.83	1.29%	$0.91	-24.83%	Buy Under $50	4
VIPER ENERGY	VNOM	Oil and Gas Royalty	09-01-2022	$29.68	$31.23	7.30%	$2.24	12.77%	Buy Under $34	3
BWX TECHNOLOGIES, INC.	BWXT	Nuclear Power Equipment	12-22-2022	$58.05	$81.51	1.13%	$0.92	42.00%	Buy Under $80	3
BLACK STONE MINERALS	BSM	Oil and Gas Royalty	02-16-2023	$15.90	$16.44	11.56%	$0.95	9.37%	Buy Under $18	2
BITCOIN	BTCUSD	Cryptocurrency	05-11-2023	$27,011.85	$39,806.60	0.00%	$0.00	47.37%	Buy Under $50,000	4
PEABODY ENERGY	BTU	Coal Mining	06-22-2023	$21.29	$26.60	1.13%	$0.15	25.65%	Buy Under $25	4
CNX RESOURCES	CNX	U.S. Gas-Focused E&P	09-28-2023	$22.82	$20.40	0.00%	$0.00	-10.60%	Buy Under $30	3
BATTLESHIP STOCKS										
CREDIT ACCEPTANCE CORP	CACC	Consumer Finance	07-28-2022	$560.28	$551.22	0.00%	$0.00	-1.62%	Buy Under $600	3
NOVO NORDISK	NVO	Pharmaceuticals	10-27-2022	$53.30	$105.35	0.59%	$0.74	99.04%	Hold	2
WINMARK CORPORATION	WINA	Specialty Apparel Stores	09-15-2022	$217.60	$346.15	0.92%	$16.20	66.52%	Hold	1
FRANCO-NEVADA CORP	FNV	Precious Metals Streamer	05-11-2023	$154.77	$109.20	1.25%	$1.02	-28.78%	Buy Under $125	2
PAYPAL	PYPL	Payment Processor	07-20-2023	$73.02	$60.47	0.00%	$0.00	-17.19%	Hold / Stop Loss at $50	3
FOREVER STOCKS										
PHILIP MORRIS	PM	Tobacco Maker	07-14-2022	$89.62	$91.00	5.71%	$7.68	10.11%	Buy Under $105	1
DOMINO'S PIZZAS INC	DPZ	Restaurants	02-27-2023	$300.00	$417.66	1.05%	$3.63	40.43%	Hold	3
DEERE & COMPANY	DE	Agricultural Machinery	08-31-2023	$410.94	$391.29	1.38%	$1.35	-4.45%	Buy Under $450	3
DIAGEO PLC	DEO	Alcoholic Beverages	12-14-2023	$145.72	$141.37	3.55%	$0.00	-2.99%	Buy Under $160	3
INCOME & DISTRESSED DEBT										
SABA CAPITAL INCOME & OPPORTUNITIES FUND	BRW	High Yield Bond Fund	03-16-2023	$7.70	$7.55	13.51%	$0.89	9.55%	Buy Under $9	3
OAKTREE SPECIALTY LENDING CORP	OCSL	Specialty Investments	03-30-2023	$18.57	$21.47	10.25%	$1.72	24.88%	Buy Under $22	2
PROPERTY & CASUALTY INSURANCE										
W.R. BERKLEY	WRB	P&C Insurance	05-25-2023	$56.10	$83.19	0.48%	$1.22	50.46%	Buy Under $62	2
PROGRESSIVE CORPORATION	PGR	P&C Insurance	06-08-2023	$131.08	$177.87	0.22%	$0.30	35.92%	Buy Under $160	2
CHUBB LIMITED	CB	P&C Insurance	06-08-2023	$191.60	$240.58	0.17%	$2.58	26.91%	Buy Under $220	2
SKYWARD SPECIALTY	SKWD	P&C Insurance	06-16-2023	$24.66	$31.80	0.00%	$0.00	28.95%	Buy Under $35	2
EXPONENTIAL GROWTH										
TELLURIAN INC.	TELL	U.S. LNG Exporter	06-16-2022	$3.82	$0.52	0.00%	$0.00	-86.39%	Hold	5
EVOLUTION AB	EVVTY	Casinos & Gaming	11-30-2023	$103.77	$116.13	1.86%	$0.00	11.91%	Buy Under $130	4
INMODE	INMD	Medical Devices	01-11-2024	$20.19	$23.20	0.00%	$0.00	14.91%	Buy Under $25	5
BETTER THAN THE MARKET										
CAMBRIA SHAREHOLDER YIELD	SYLD	Yield Focused ETF	01-05-2023	$59.67	$66.56	2.33%	$1.17	13.51%	Buy Under $65	2
WATCHLIST										
NVR, INC.	NVR	Homebuilder	NA	-	$6,996.82	0.00%	-		Buy Under $3,500	
FREEPORT-MCMORAN	FCX	Base Metals	NA	-	$39.30	1.53%	-		Waiting For Recession	
SOUTHERN COPPER CORP	SCCO	Base Metals	NA	-	$83.44	3.60%	-		Waiting For Recession	
SHERWIN-WILLIAMS	SHW	Specialty Chemicals	NA	-	$302.92	3.20%	-		Buy Under $150	
ULTA BEAUTY	ULTA	Specialty Retail	NA	-	$491.50	0.00%	-		Buy Under $350	
NIKE	NKE	Athletic Footwear & Apparel	NA	-	$100.61	0.00%	-		Buy Under $75	
HOME DEPOT	HD	Home Products Stores	NA	-	$350.90	2.38%	-		Buy Under $240	
PAYCOM SOFTWARE	PAYC	Application Software	NA	-	$192.65	0.78%	-		Buy Under $150	

Disclaimer: this hypothetical portfolio should not be considered investment advice or a recommendation to buy/sell any financial instrument. For informational purposes only. Investors should perform their own due diligence before buying or selling any financial instrument. No express or implied guarantee of accuracy or applicability to real-world trading. Risk Ratings are based on a security's fundamentals and business model rather than its current valuation. Cost basis refers to the closing price the day before a security is recommended.

CLOSED POSITIONS	Ticker	Description	Purchase Date	Cost Basis	Sell Price	Yield	Income Received	Total Return	Status
HOVNANIAN ENTERPRISES	HOV	Homebuilder	06-30-2022	$42.79	$36.50	0.00%	$0.00	-14.70%	Sold Sept. 29, 2022
ACTIVISION BLIZZARD	ATVI	Video Games	03-02-2023	$77.71	$90.99	0.00%	$0.00	17.09%	Sold July 11, 2023
AMERIGO RESOURCES	ARREF	Base Metals	03-30-2023	$1.21	$0.91	8.84%	$0.04	-21.90%	Sold Oct. 12, 2023
DREAM FINDERS HOMES, INC.	DFH	Homebuilder	04-27-2023	$14.89	$20.69	0.00%	$0.00	38.95%	Sold Oct. 12, 2023
QURATE RETAIL, INC.	QRTEP	8% Cumulative Preferred Stock	01-19-2023	$40.64	$29.28	27.32%	$6.00	-13.19%	Sold Oct. 12, 2023
ANNALY CAPITAL MANAGEMENT	NLY	Real Estate Investment Trust	02-02-2023	$24.12	$17.78	19.80%	$1.30	-20.90%	Sold Oct. 12, 2023
MICROSTRATEGY INC	CUSIP: 594972AC5	2025 Convertible Bond	10-13-2022	$758.00	$1,371.14	0.55%	$7.50	81.88%	Sold Nov. 9, 2023
ALTRIA	MO	Tobacco Maker	07-14-2022	$41.63	$42.03	9.33%	$4.74	12.35%	Sold Nov. 30, 2023
HALL OF SHAME									
ICAHN ENTERPRISES	IEP	Specialty Investments	12-08-2022	$50.65	$20.63	38.78%	$4.00	-51.37%	Sold May 25, 2023
ALTISOURCE ASSET MANAGEMENT	AAMC	Asset Management	07-06-2023	$58.00	$10.02	0.00%	$0.00	-82.72%	Sold Aug. 17, 2023

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PayPal's New Leadership Plots a Course Correction

PayPal (Nasdaq: PYPL) shares have rebounded over the last three months with the news of fresh leadership and several new initiatives underway. But PYPL shares are down 24% over the past year, while the tech-heavy Nasdaq Composite Index has soared 37%.

PayPal is a global payments juggernaut – a quarter of the world's e-commerce runs through its network. With over 35 million merchants and 400 million consumers using its platform, the company's scale is unmatched. But between 2015 and 2022, PayPal sunk $13 billion into acquisitions that have yet to contribute meaningful profits to its bottom line.

This lack of profitable growth is why PayPal is shaking up the C-suite, starting at the top with a new CEO (as of September 2023), Alex Chriss. Chriss previously served on the executive board of Intuit, a tax-and-accounting software provider.

At Intuit, he successfully led the company's $12 billion acquisition of the leading email marketing platform, Mailchimp. Chriss oversaw the integration that ultimately expanded Intuit's platform to a younger generation of professionals. But now at PayPal, instead of targeting new acquisitions, he'll focus on creating value from the acquisitions made the last few years.

As CEO Chriss explained in a recent **CNBC interview**:

> *"There hasn't been a lot to celebrate over the last few years. Innovation has been slow. The company's been growing but hasn't delivered the value proposition to its consumers or merchants in the past few years.* ***And that's why I'm here.****"*

In addition to hiring a new CEO, PayPal also replaced three top executives in November 2023 and established three new business units aligned to better serve customers: Consumer, Small Business, and Large Enterprise. By prioritizing customer needs, utilizing data, and improving platform capabilities for each business unit, PayPal aims to deliver innovations faster and on a single platform that differentiates PayPal from its competitors.

In our most recent **PayPal update**, we mentioned Chriss's first major initiative, named project Quantum Leap. On January 25, PayPal held an investor day to introduce the initiative in detail and break down the new features across its platform. This initiative is rolling out a set of new features to its digital wallet and streamlining its online checkout as it aims to bolster its position against the competition.

CEO Chriss believes that we'll see a "completely different PayPal" by the end of 2024.

The success of PayPal's new initiatives aims to quell investor pessimism over strengthening competition and fear of lower take rates, which are the fees PayPal

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collects for every payment it processes. For example, PayPal aims to streamline the online checkout process to compete with payment processors Stripe and Apple Pay. By delivering innovations with speed and integrating the entire PayPal ecosystem, the company hopes to produce incentives for both consumers and merchants.

With advertising costs increasing for small-to-midsize businesses, PayPal can leverage its 400 million user-base to entice merchants to advertise within the PayPal ecosystem. In addition, making the most of its technological advantages, PayPal can use data and artificial intelligence ("AI") to drive more sales to PayPal merchants. The company has used AI to detect fraud since 1999, but it has yet to leverage AI to grow its merchant businesses.

Today, PayPal is a highly profitable and capital efficient business, with 20% FCF margins. It's also trading at less than 12× 2024 earnings, its lowest valuation on record. PayPal expects to grow total processing volume (TPV) at double digit growth rates and is expected to surpass its 2023 $1.5 trillion in TPV for 2023 when it reports full-year earnings on February 7.

PayPal's steady FCF generation and modest growth has allowed it to buy back $5.4 billion in shares over the past 12 months – nearly 8% of PayPal's current market cap. Based on management's guidance, we expect share repurchases to continue to trend higher as PayPal's FCF increases. The buyback program should provide PYPL shares enough support if the broader market were to fall or if PayPal shares are further pressured in the coming months.

PayPal's management shakeup and new strategic priorities are a promising step in the right direction However, we'll need to see a tangible improvement in two key metrics before having full confidence in this turnaround plan. Specifically, we're looking for growth in the company's user base and expanding profit margins. Until we see these improvements, we're taking a cautious approach and removing our PayPal recommendation from buy to hold. We also now recommend setting a stop loss at $50 per share, in order to limit downside in the event that PayPal's new strategy fails to deliver results

Action to Take: Hold shares of PayPal (Nasdaq: PYPL) with a stop loss at $50 per share.

Tellurian: New CEO, Same Problems

On December 11, 2023, **Tellurian (Nasdaq: TELL)** ousted its chairman and co-founder Charif Souki, and filled the chairman position with fellow co-founder Martin Houston. Souki will remain on the board, but he no longer has any managerial responsibilities. Under Souki's leadership, Tellurian struggled to secure a financing partner to fund its Project Driftwood, the company's make-or-break liquid natural gas ("LNG") export facility in Louisiana.

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Our Tellurian recommendation is solely dependent on the success of Driftwood – which would make it one of the most important energy companies in the world. If Tellurian can't secure financing, it will likely run out of money and be forced to restructure, in which case stockholders would likely be wiped out.

There's still a small window for Tellurian **(which we first recommended to readers in June 2022)** to secure the equity financing for Driftwood. However, with just $59 million in cash and over $500 million in debt, that window is rapidly closing as the company's liquidity erodes.

Tellurain's debt obligations require it to carry at least $50 million in cash. On December 28, new chair Houston **announced in a letter** to shareholders that Tellurian swapped 47.9 million shares with a creditor in exchange for the cancellation of an upcoming interest payment. If Tellurian was forced to make that interest payment in cash, its cash position would have fallen from $59.3 million to $21.4 million, violating its debt restrictions.

Houston also announced that Tellurian hired a balance-sheet advisor to assist with shaping commercial structures – indicating that Tellurian could be preparing for a potential restructuring. In order to help shore up its liquidity, the company recently announced it slashed general & administrative expenses by nearly 50%.

In other news, rising geopolitical risks and U.S. policy-makers could provide a significant catalyst to help Tellurian get a financing deal over the finish line.

Geopolitical Risk and Climate Activism Could Boost Demand for Tellurian's Assets

The ongoing disruptions in the Red Sea have forced ships to avoid the Suez Canal – creating an opportunity for U.S. LNG exporters.

The Suez Canal directly connects the waters of Europe with the Arabian Sea and countries of the Asia-Pacific. Since mid-November, hundreds of ships have been forced to avoid this important shipping route due to drone and missile strikes from the Iranian-backed Houthi rebel group. The Houthis are disrupting shipping lanes along this route to pressure Israel to end its military operation in Gaza. As seen below, ships have been forced to alter routes since attacks began in mid-November.

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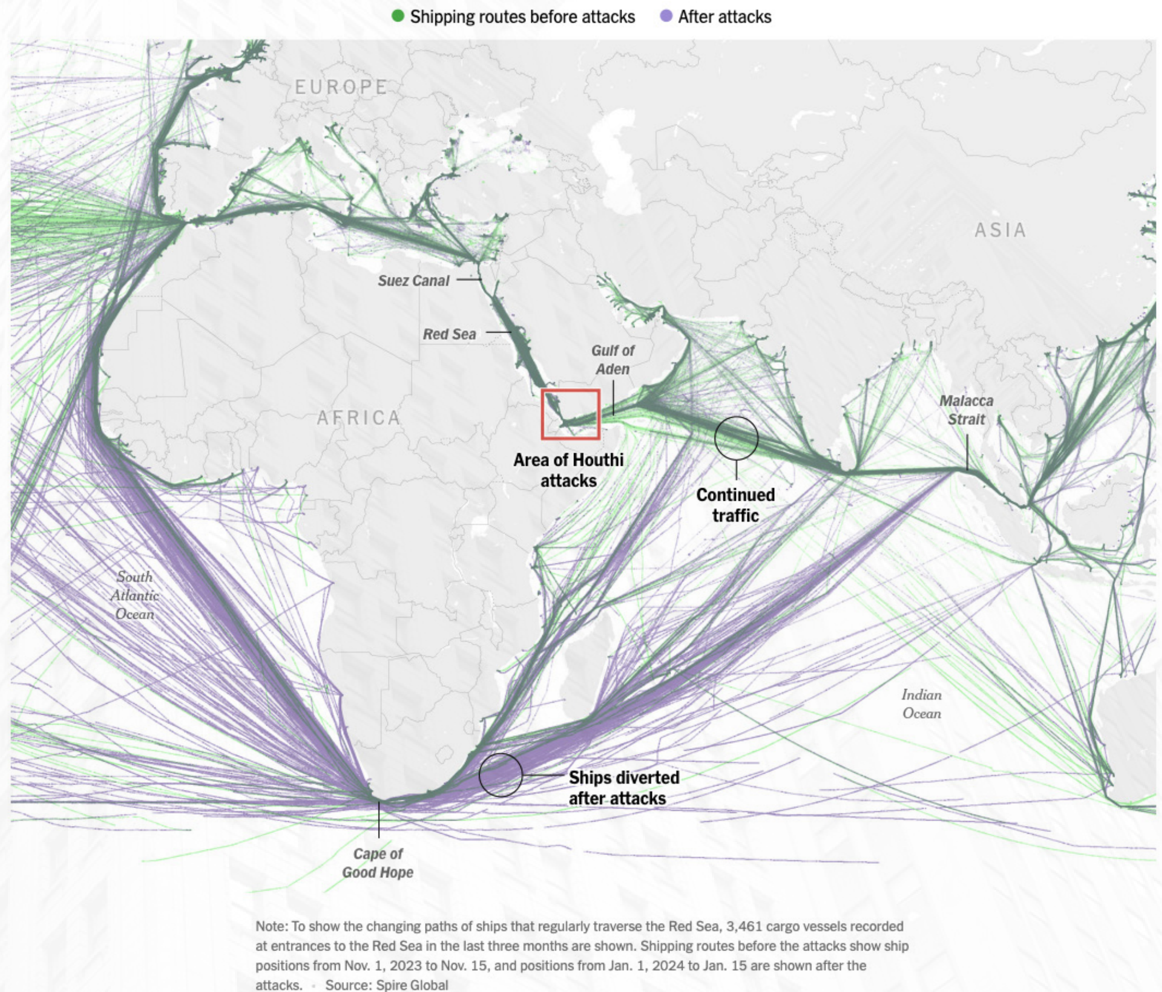

Note: To show the changing paths of ships that regularly traverse the Red Sea, 3,461 cargo vessels recorded at entrances to the Red Sea in the last three months are shown. Shipping routes before the attacks show ship positions from Nov. 1, 2023 to Nov. 15, and positions from Jan. 1, 2024 to Jan. 15 are shown after the attacks. · Source: Spire Global

As a result, insurance premiums increased 10-fold for ships traveling through the Red Sea. The alternative route requires ships to go through Africa – adding 14 days and 20% to 30% costs.

About 8% of global LNG shipments go through the Suez Canal but now that the waters are becoming a danger zone, companies are canceling Red Sea shipments. On January 14, Qatar, the second largest LNG exporter in 2022, announced a pause to LNG shipments through the Red Sea while three major oil-tanker operators reported they were avoiding the route.

A long-term disruption to LNG shipments in the Red Sea could be a positive development for U.S. LNG if supply shocks materialize. If the ongoing disruptions and militant strikes persist, or continue to worsen, this could be the catalyst Tellurian needs to attract a strategic partner.

In fact, on January 25, Tellurian announced that it had hired investment bank Lazard to pursue a sale – either to unload part of its portfolio of gas wells or even

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Driftwood itself. In light of the LNG shipping disruptions in the Mideast, overseas buyers – particularly those in Europe – could seek safer supply alternatives from the U.S. This could boost the appetite for a Tellurian financing partner or buyer.

Another catalyst that could secure a deal for Tellurian's assets just came from the White House on January 26. The Biden administration published a press release announcing a pause on approvals of LNG export facilities, citing what it calls "the existential threat of our time" – climate change. The press release states that the current Department of Energy (DoE) guidelines for approving LNG facilities don't factor in the impact of climate change, like methane emissions. The pause on pending approvals will last until the DoE adds new rules that incorporate climate-change considerations into their framework on approving proposed facilities.

The pause, and the new regulations that follow, will delay or permanently eliminate the nearly 20 LNG export facilities currently awaiting DoE approval. Of course, this only means that more coal will be consumed in the absence of cleaner-burning natural gas. Analysts have estimated that the combined natural-gas capacity of these delayed LNG facilities represents nearly 675 coal plants worth of energy output.

While this new policy is a disaster for American energy superiority, it's potentially excellent news for Tellurian. By delaying or potentially eliminating the future construction of U.S. LNG terminals, the Biden administration just made existing projects with DoE approval substantially more valuable.

Not only has Tellurian already received full DoE approval for its Driftwood facility, but it's already got a headstart on construction. The many companies whose future projects just got delayed or canceled now represent potential partners or buyers of Tellurian's assets.

Tellurian's shares jumped 20% on the news. While there's no guarantee that these latest developments will help the company secure financing, or a buyout, it shifts the odds further in Tellurian's favor.

Even with these latest developments, we maintain that Tellurian is highly speculative. Investors should keep the size of this position limited to what they can afford to lose.

We continue recommending that investors hold shares of **Tellurian (Nasdaq: TELL)**, and we reiterate our high-risk rating of 5 for this investment.

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Mailbag

In *The Big Secret on Wall Street* mailbag, Porter answers letters from readers. He cannot offer individual investment advice, but can respond to general questions.

Please email us at **mailbag@porterandcompanyresearch.com** to have your questions answered. We'd love to hear from you!

> *Today's letter comes from E.C. who writes:*
>
> *Porter,*
>
> *I wanted to send you an end-of-year "thank you." My wife's IRA account, which I manage, is up 105%.*
>
> *Some context: Fed up with years of investment mismanagement by paid investment firms who directed my funds into declining returns, I decided I might do better on my own. It wasn't easy at first, primarily because my wife gave me a lot of grief that I wasn't a financial guy and that I wouldn't have the time to manage our money while working full-time. She was scared to death that I'd lose all our money! But I was determined to figure it out.*
>
> *I found Stansberry Research several years ago when I read an article by Steve Sjuggerud. Sjug's simple line, "Money goes where it's treated best." It hit me over the head in its simplicity. I purchased a couple of advisories. It turned out, I loved reading about firms, learning about what to look for in companies, and how to think about investing. I also learned that my emotions drove a lot of my decision-making and, therefore, I held onto things too long, or sold too early or too late. So, I became an early subscriber to TradeStops. But even with TradeStops, I was still driven by the excitement of watching stocks rise quickly. So I initially took the path of learning the hard way.*
>
> *Nonetheless, I read your research voraciously, eventually becoming a Stansberry Research Choice subscriber and a TradeStops Platinum member. I was very successful following Sjug's and Doc Eifrig's advice, particularly with regard to how to think about investing. I was bummed when you left Stansberry Research and was glad to see you resurface with Porter & Co. When I received your invitation to become a Partner, I immediately took it. Best thing I ever did!*
>
> *I have since developed the discipline to keep my trailing stops updated through TradeStops and have removed the emotion from my investing decisions. I haven't followed Porter & Co stock picks to the letter, but with the knowledge gained over the years by reading your excellent research and reports, I've been able to put together a portfolio of stocks you recommended along with some of my own choices.*

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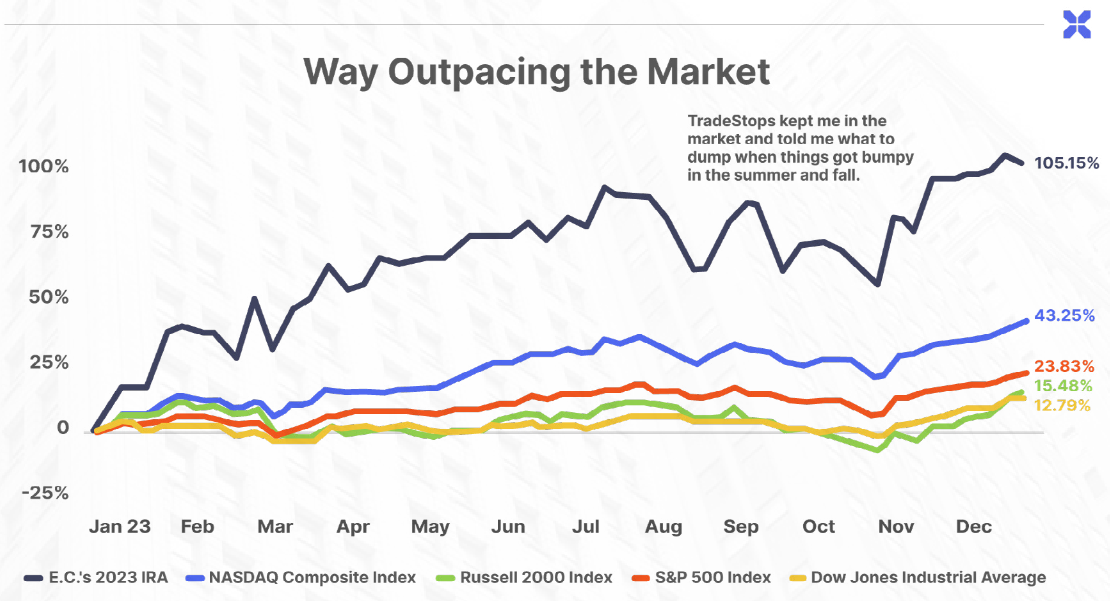
I just finished listening to episode 5 of the Black Label podcast in which a statistic was quoted that the average IRA account is down 4% in 2023. Wow! But I have my wife's IRA up 105% – see below, keeping my portfolio investments private.



Porter's comment: Thank you for the kind words, and congrats on an incredible year!

Seeing the real-world impact our research has on the lives of our subscribers makes this the most rewarding job I could ask for. But, by far, the best reward comes from subscribers learning how to improve their own investing process.

I'm very pleased to learn that you've embraced the single most important investing lesson that I've tried to communicate over the years: controlling downside risk.

It's not as sexy as finding the next hot stock. But no matter how good any individual investment opportunity might seem, we will – like everyone else in this game – have our share of losers. Without a process for limiting the inevitable losses incurred along the way, there's little hope of building long-term wealth.

As you point out, limiting losses is all about keeping the emotions in check. For most of us, selling a losing position is a psychologically painful affair. It means admitting defeat, something our brains are simply not wired to do.

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> **That's the beauty of TradeStops. By definition, it will mathematically take you out of your losing stocks and keep you in the winners. And it completely eliminates the single biggest hurdle along the way – our own emotions.**
>
> **It's my sincere hope that if subscribers take nothing else away from our work, that they learn the importance of controlling risk. Even better if they implement a rules-based system that does it for them.**
>
> **Thank you for sharing your journey.**

Porter Stansbury

Porter & Co.
Stevenson, MD

P.S. If you'd like to learn more about the Porter & Co. team, you can get acquainted with us **here**. You can follow me (Porter) on **X** (**formerly Twitter**) **@porterstansb**.

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