Porter & Co.

THE BIG SECRET ON WALL STREET

Ticking Time Bombs

10 Companies You Should Have Sold Yesterday

FROM THE DESK OF PORTER STANSBERRY

SPECIAL REPORT

Ticking Time Bombs

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She couldn't outrun the demon.

The 15-year old girl was no match for a seven-foot-tall half-goat, half-man creature wielding a whip. And the other kids around her – screaming and fleeing – were no help.

So the beating began.

This wasn't some medieval cautionary tale. It happened in 2015 at the Krampuslauf festival that is held each Christmas season in Salzburg, Austria… where, tanked up on alcohol, costumed Krampus demons go on the rampage with whips and bundles of stinging birch branches to terrorize naughty kids.

That year, the demons got a little too enthusiastic and crossed the line from PTSD-inducing terror, to all-out, bona-fide corporal punishment.

And the Austrian teenage girl – along with four other young people – ended up in the hospital with injuries ranging from welts to broken bones. "This violence had nothing to do with tradition," the girl's outraged father told reporters.

Actually, though, the violence is kind of the *point* of the tradition…

Krampus, a fearsome Alpine folklore figure who's said to be descended from a Norse god called Hel, somehow got grafted onto Christmas festivities in the seventh or eighth century. Known as the "anti-Santa Claus," he visits right before Christmas to scare naughty children into good behavior. (He's the one who traditionally provides the coal for your stocking.)

In the older legends, though, Krampus does more than just scare children. Swatting with bundled-up branches is a mild punishment. He tosses the truly incorrigible youngsters into his sack and takes them away forever. Sometimes he drowns them. Sometimes he eats them. And sometimes he carts them straight to Hell.

You don't want to be on Krampus' naughty list.

Unfortunately, that's exactly where several well-known (and not-so-well-known) companies find themselves today.

These miscreants are heavily-indebted, money-losing companies that are likely to suffer terribly when the next recession arrives – but that will struggle no matter what the next year has in store.

It's Grinch Time

Many investors are downright jolly right now...

Here at Porter & Co., we're far less upbeat about what's ahead. And we've spilled plenty of ink in recent months explaining why...

For starters... Stocks as a percentage of household wealth recently hit an all-time high of 35%. Previous peaks in this measure include the top of the 1968 bull market (29%), the top of the 2000 dot-com bubble (30%), and the top in stocks just before the COVID-19 pandemic (34%).

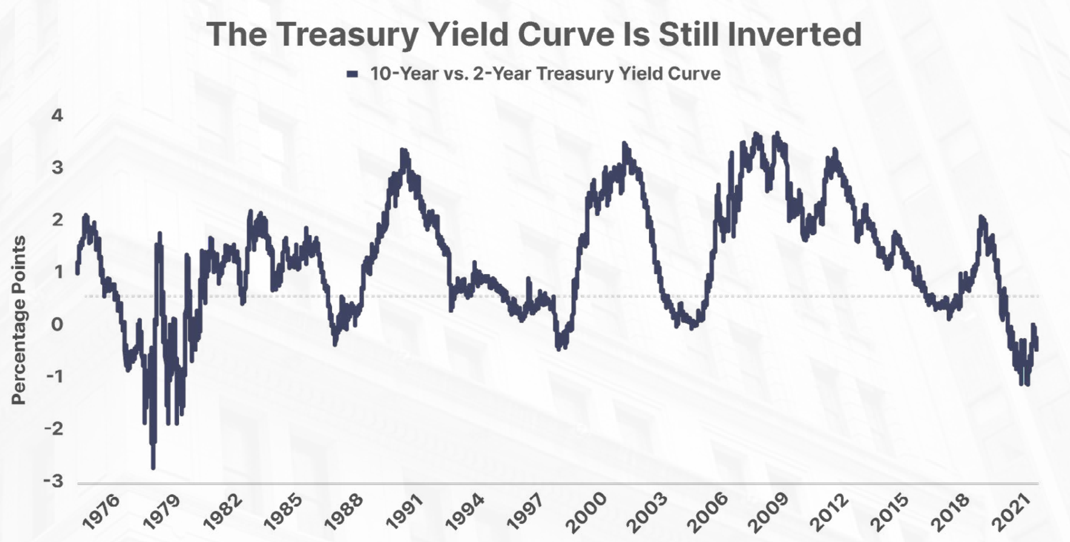
Meanwhile, by virtually every notable metric, the broad market is more overvalued than ever before in history.

Take Warren Buffett's favorite measure of broad market valuation, the total U.S. stock market capitalization measured against U.S. gross domestic product ("GDP").

Before 2020, the previous all-time peak in this measure was just under 150% of GDP during the 2000 bubble. That peak was two standard deviations away from the historical trend line, suggesting an unsustainable extreme.

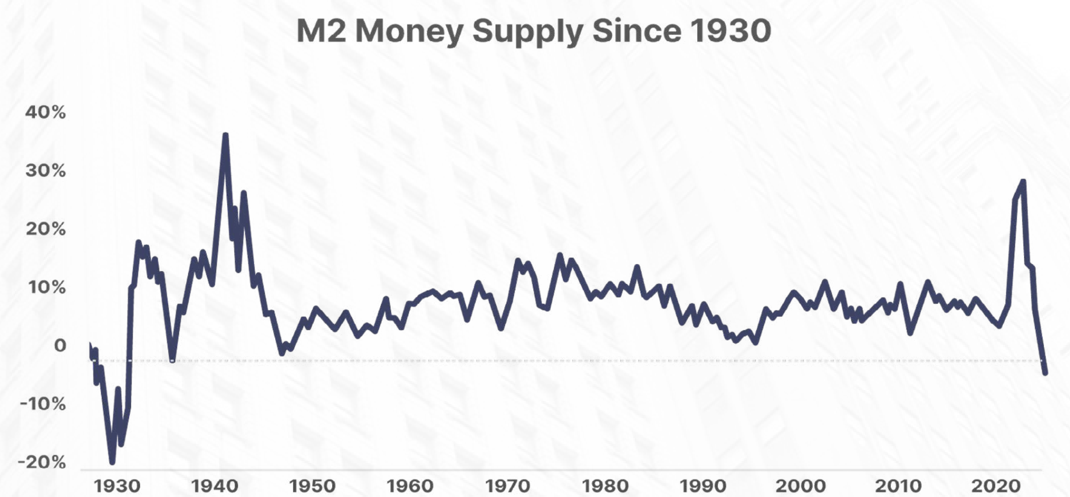
Recently, this measure hit 200% of GDP... placing it well beyond two standard deviations above the average.

We've also noted that the U.S. Treasury yield curve has been deeply inverted for over a year now. This phenomenon – which occurs when long-duration Treasury yields trade below short-duration yields – has a perfect track record at predicting recessions since at least World War II...



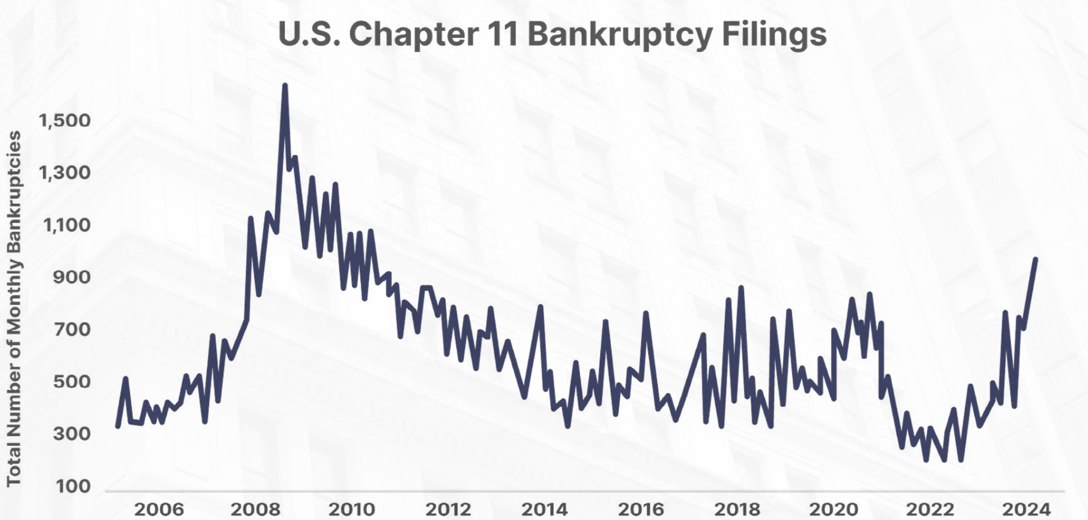
Source: St. Louis Fed

We've also pointed out that M2 (a measure of broad money supply) recently contracted for the first time in over 70 years. Each time this has happened – dating back to the Civil War – double-digit unemployment and a depression have eventually followed...

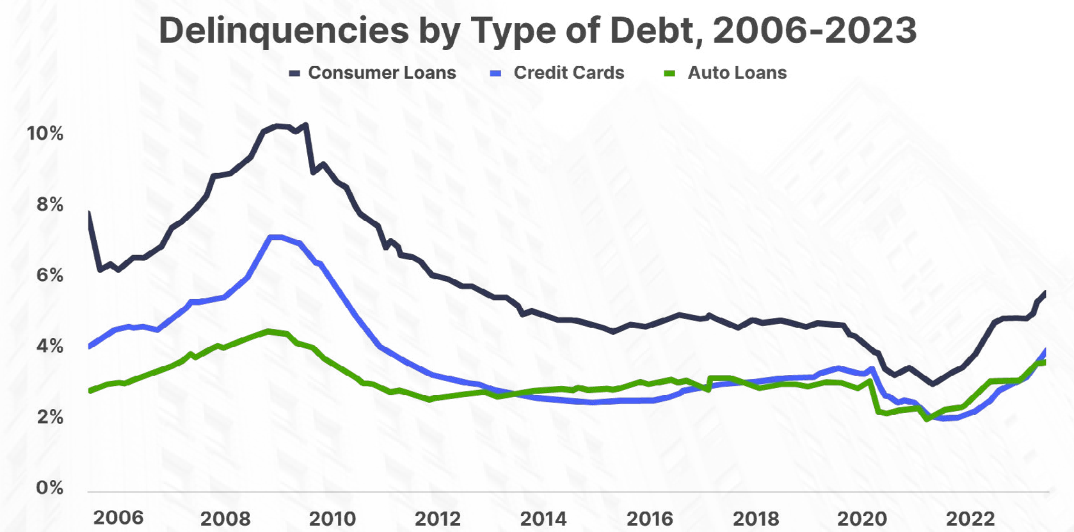


Source: Federal Reserve, Goldman Sachs Research

And we've shown that crippling levels of debt are beginning to weigh on the economy, as corporate bankruptcies and consumer delinquencies gradually tick higher...



Source: Variant Perception

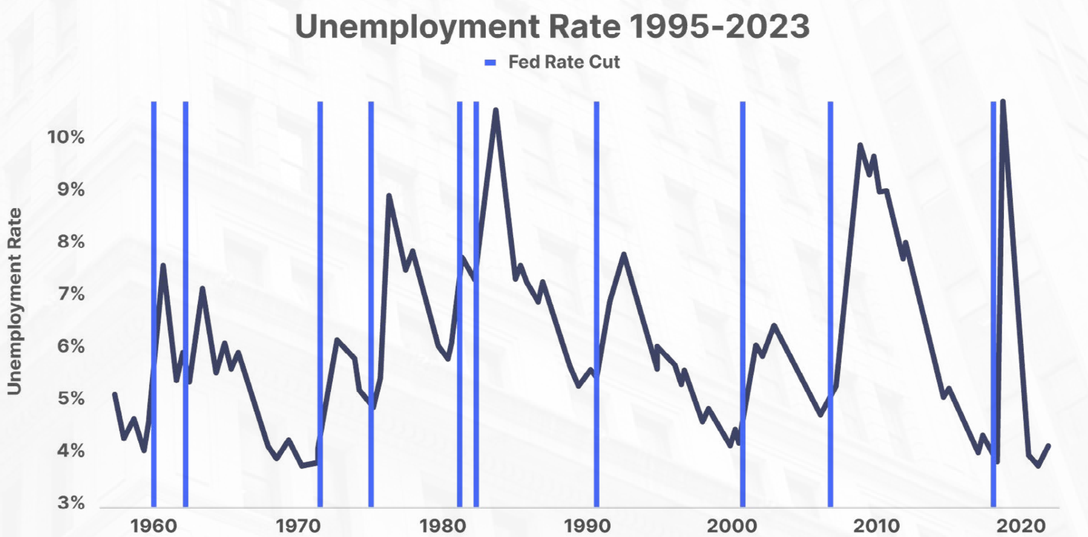


Source: Equifax/Moody's Analytics

The recent end of the Fed's aggressive tightening cycle hasn't changed our view. In fact, it has only strengthened it.

Contrary to popular opinion, history suggests a Fed pivot – from *hiking* rates to cutting *rates* – is typically anything but positive for stocks or the economy.

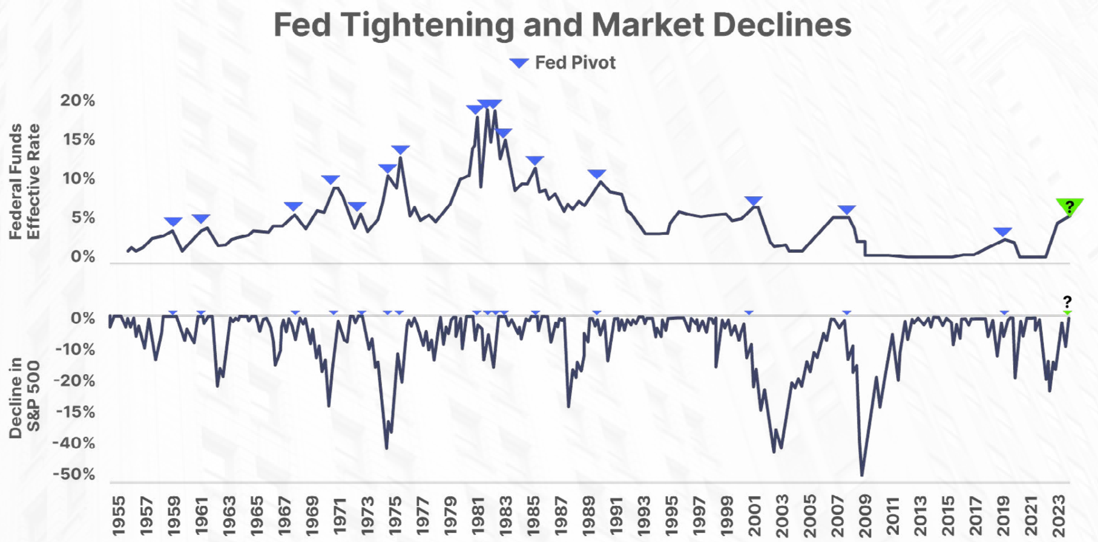
Since 1950, the vast majority of Fed cutting cycles have preceded – within a few months on average – a dramatic rise in the unemployment rate.



Source: FRED

Similarly, Fed pivots toward easing have also historically coincided with significant stock market declines.

These declines have been particularly severe following aggressive tightening cycles when inflation has been high, stock market valuations have been extreme, and corporate and consumer debt burdens have been elevated – all of which are true today.



Source: Michael A. Gayed, CFA

These "Naughties" Are in Trouble No Matter What Happens Next

The coming recession is likely to present tough conditions for even the highest-quality companies.

This is why we've been extremely selective with new additions to the Big Secret portfolio over the past year… and why we have created a subscribers-only watchlist of stocks to buy when prices get cheap. And all along, we have urged readers to be disciplined about investing only in those stocks they can purchase at reasonable valuations.

However, the next downturn could represent a life-or-death scenario for the companies below.

10 Companies You Should Have Sold Yesterday
($millions)

Company	Ticker	Sector	Market Cap	Total Debt	Cumulated Net Income Over Last Three Years	Cumulated FCF Over Last Three Years	Trailing 12-Month Interest Expense
AMC Entertainment Holdings Inc	AMC	Communication Services	$1,895	$9,142	-$1,892	-$7,344	$411
Sunnova Energy International I	NOVA	Utilities	$854	$7,534	-$687	-$14,582	$371
Bally's Corp	BALY	Consumer Discretionary	$697	$5,066	-$960	-$320	$287
Opendoor Technologies Inc	OPEN	Real Estate	$1,642	$2,534	-$1,985	-$7,794	$174
Spirit Airlines Inc	SAVE	Industrials	$330	$6,895	-$1,217	-$3,600	$136
Alnylam Pharmaceuticals Inc	ALNY	Health Care	$29,629	$1,305	-$2,100	-$5,010	$128
Plug Power Inc	PLUG	Industrials	$1,996	$600	-$2,688	-$13,190	$46
Lyft Inc	LYFT	Internet Media & Services	$4,812	$1,041	-$2,339	-$3,058	$28
Lucid Group	LCID	Consumer Discretionary	$7,948	$2,355	-$6,384	-$32,359	$25
Stem Inc	STEM	Industrials	$194	$604	-$255	-$1,837	$24

Source: Bloomberg

To identify the stocks on this list, we started with the Russell 3000 – a broad index of roughly 3,000 stocks representing 98% of the investable U.S. market by capitalization, including all large-cap, mid-cap, and small-cap U.S. stocks, along with some microcaps.

We then filtered for those that owe money to creditors (i.e., that have some amount of total debt outstanding) and that are required to make regular annual payments on that debt to avoid default.

Finally, we screened for those companies with the largest negative earnings (cumulated net income… or loss, in this case) and largest negative free cash flows (cumulated FCF) over the past three years. This is a short enough time period to be current, but long enough to ensure we don't flag healthy companies suffering a temporary hiccup.

The individual circumstances of these companies vary widely…

Some are household names – such as AMC Entertainment (AMC), Spirit Airlines (SAVE), and ride-sharing company Lyft (LYFT).

Many are cash-burning "growth" companies that have rarely (if ever) turned a profit.

But all the companies on this list currently have two critical problems in common…

They have significant debt burdens, and they don't earn enough cash (over and above operating costs) to cover even the interest on those debts today.

In fact, these companies don't currently "earn" anything. Each has posted significant net losses or has otherwise hemorrhaged cash over the past few years.

This combination represents a potentially existential threat in any scenario, let alone a severe economic downturn. However, it's important to note that these companies are already struggling – despite their still-historically-low financing costs – despite a soaring stock market and still officially growing economy.

That's unlikely to change even if the economy somehow avoids a hard landing in the year ahead. And importantly, because many of these companies financed their current debt at the record-low interest rates of the past decade, these problems are likely to worsen as those debts come due at today's higher rates (even if borrowing costs move lower from where they are now).

In other words, many of these stocks could be a "zero" – meaning equity investors are likely to be wiped out through default or reorganization – regardless of what comes next.

We urge investors who own any of these "naughties" to consider selling them soon. And though we at Porter & Co. generally don't recommend shorting stocks, several of the names on this list could be strong candidates for investors looking to hedge.

Of course, recessions and major downturns in stock prices are also what every long-term investor should hope to see. These are made-to-order opportunities to buy the very best businesses at substantial discounts... and that's exactly what we'll help *Big Secret on Wallstreet* subscribers to do.

For the latest updates on our open positions, members can visit our live portfolio page. You can learn more about becoming a member by calling Lance, our Director of Customer Care, at **888-610-8895**, or internationally at **+1 443-815-4447**.