Porter & Co.

THE BIG SECRET ON WALL STREET

Casino Capitalism Crashes Planes

- The Sad Demise Of A Once-Great American Company
- Done In By Short-Sighted Profiteers And Misguided Regulators

FROM THE DESK OF PORTER STANSBERRY

SPECIAL REPORT

In this report, we chronicle the demise of a century-old aircraft-manufacturing company – it's been an American icon for generations. The demise of this company is a tale of casino capitalism, where corporate executives gamble with other people's money, reaping all of the upside when things go their way. But when their luck runs cold, the C-suite passes the bill for their bad bets to shareholders, suppliers, employees… and eventually to taxpayers.

Meanwhile, regulators, who are hired to protect our safety, also star in this sad story. They've essentially allowed this business to regulate itself – while zealously scrutinizing the operations of one of its key competitors.

President-elect Donald Trump has pledged to wipe out crony capitalism and slash unnecessary regulations… But this company might be too far gone.

As a result, we are doing something that we rarely do. We are recommending that investors take a short position in this company, which means that we're betting the share price will *decline*.

We hope you enjoy the research provided in this report… It demonstrates the type of work we provide every week in *The Big Secret on Wall Street*

Casino Capitalism Crashes Planes

The Sad Demise Of A Once-Great American Company

Done In By Short-Sighted Profiteers And Misguided Regulators

In this issue, we're doing something we rarely do at Porter & Co.: we're issuing a short recommendation, which means that we're betting the share price will *decline*.

We rarely recommend shorting stocks because, over the long run, it's a sucker's game. First, the risk/reward proposition is lopsided. The best possible outcome from shorting is a 100% return if the stock goes to zero. The worst possible outcome, though, is losing your entire investment. There's no limit to how high a stock can go in the other direction from a short (that is, up) – and thus, no limit on the potential losses from going against it.

Plus, shorting a stock isn't cheap. It involves paying a fee to the owner of the shares (in shorting, the stock is borrowed), and thus paying the dividend, if one is paid during the period of shorting the shares. Margin isn't cheap, and transaction fees – to sell short, then buy back – can add up.

Because, even though this strategy doesn't pay off on average, in a bear market, the odds improve, and the profits from short exposure can be considerable. That's because of what's known as crisis alpha, or the ability to generate profits when everything else in a portfolio is falling in value. Those profits can then be redeployed into long positions at deeply discounted prices, setting the stage for massive long-term wealth creation.

In 2008 – in the midst of the worst bear market for U.S. stocks in decades – I made seven short recommendations that returned an average of 25%. The long recommendations I held fell in value, along with everything else during 2008. But the profits from our shorts offset those losses. The end result was an average loss of 1.4% versus a 37% loss in the S&P 500. That's exactly what you want your shorts to do.

In an issue published on May 31, 2008, titled "Freddie Mac and Fannie Are Going to Zero," I recommended selling short the stocks of these two companies, which were the foundation of America's mortgage market. The short sales generated returns of 60% on Freddie Mac and 64% on Fannie Mae that year.

The real value of shorting stocks is not as an outright money-making endeavor, but as a tool for limiting losses, reducing portfolio volatility, and preserving capital during a bear market.

As we've written about extensively in the *Daily Journal* over the past several weeks, the economy and financial markets are approaching a tipping point. With stocks trading near **all-time high valuations**, **earnings momentum stalling**, and **cracks forming in the economy**, I can't recall a market that's less attractive for new investment – ever.

And while we can't know exactly when, we believe it's only a matter of time before a deep bear market strikes. That's why we're making a short recommendation in this issue.

The stock we're recommending shorting in this issue produces a critical product that many readers have likely benefited from on many occasions. It's also an essential supplier to our national defense and space programs. For most investors, because it's such an American icon, the prospect that this company could go bankrupt seems inconceivable.

But that's what many said when I wrote in May 2008 that Fannie Mae (FNMA) and Freddie Mac (FMCC) were going to zero. Even among professional investors, the consensus was that the federal government would come to the rescue in a worst-case scenario.

Of course, while the government did ultimately step in, shareholders were not spared.

How did I know that the equity in these companies would ultimately become worthless, even with an ultimate backstop from Uncle Sam? The truth was hiding in plain sight, right in their own publicly available financial statements.

The same is true of the stock we're recommending shorting today, based on our analysis of the company's public financial statements and other widely available information. The common perception among most investors says that the U.S. government can't afford to let it go bankrupt. We don't disagree… but just like with Fannie Mae and Freddie Mac, even a government bailout won't save the equity holders.

The Decline Of An American Icon

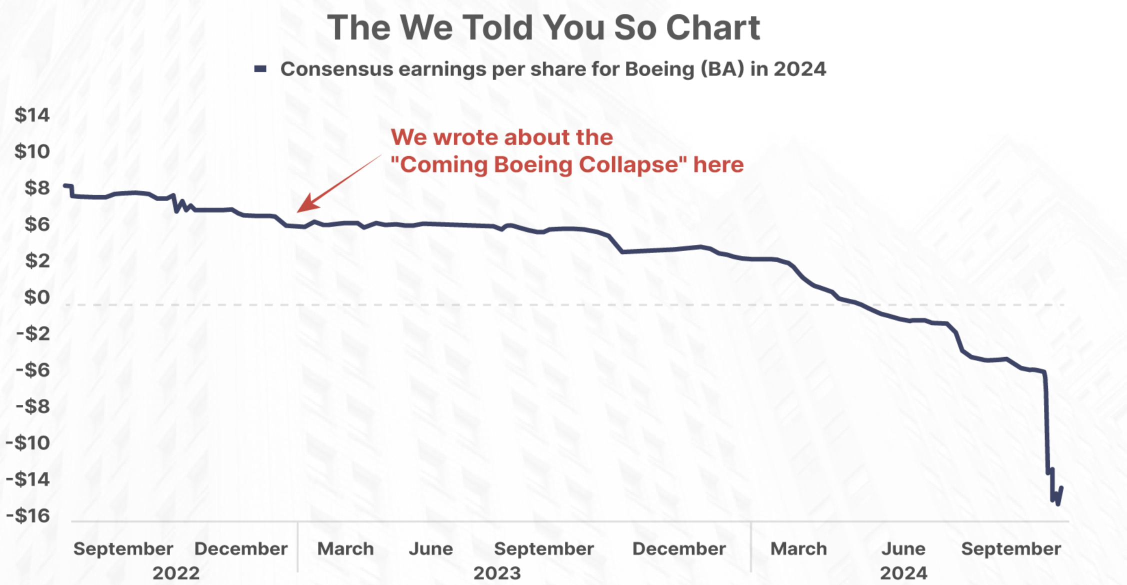
That company is **Boeing (BA)**, and we'll show in this report how the 108-year-old aircraft manufacturer is becoming the next great American bankruptcy story.

The demise of Boeing is a tale of casino capitalism, where corporate executives make reckless gambles with other people's money. They reap all of the upside when the dice rolls their way. But when their luck runs cold, the C-suite passes on the bill for their bad bets to shareholders, suppliers, employees… and eventually, to you, dear taxpayer.

Meanwhile, regulators also star in this tragicomedy. They've essentially allowed Boeing to regulate itself – while zealously scrutinizing the operations of one of its key competitors, thereby benefiting Boeing.

We first wrote about the company's decline in "**Coming Soon: The Boeing Collapse**" in January 2023. At that time, Wall Street analysts were uniformly bullish on the company. Despite years of poor performance following plane crashes in 2018 and 2019, consensus estimates were predicting billions in profits for the century-old business starting in 2024. Of the 25 Wall Street analysts covering Boeing then, no one rated the shares a "sell." Instead, 18 rated the stock a "buy" while seven advised a "hold," with an average price target of $225, which was about 10% above the market price. Since then, the stock is down roughly 30%.

The chart below shows the trajectory of the consensus forecast among Wall Street analysts for Boeing's 2024 earnings since our original warning in January 2023. It didn't take long for our predictions to pan out, as **we explained** in January 2024. Wall Street eventually came around to our view that Boeing is a cash incinerator. And then, this summer, 33,000 Boeing workers went out on strike for eight weeks, ending November 4, costing the company about $5.5 billion in lost revenue (8% of the expected total for 2024), and jacking up future labor costs for years to come.



Source: Bloomberg

Today, after all that, these same analysts are calling for a recovery in Boeing's earnings in 2025 and beyond… and once again, we believe they will be dead wrong. In fact, we're taking the opposite side and recommending investors short shares of Boeing. We believe shares of Boeing wouldn't rise much even if the company were to stage a miraculous recovery from its financial tailspin, and a real possibility that shares could go to zero in a worst-case scenario.

How The Story Has Evolved Over Two Years

In our January 2023 issue, we covered the decades of rot in Boeing's corporate culture, where executives replaced quality manufacturing with financial engineering. When the company's 737 supremacy was challenged by European aircraft maker Airbus in 2010, Boeing chose to lobby regulators to help it cut corners to compete – rather than invest in the long-term safety and success of the planes. This decision led to two 737s falling out of the sky, killing 346 passengers, and another having a door plug blow out during an Alaska Airlines flight at 16,000 feet.

But in today's update, we're covering a much bigger story – one that runs deeper than corporate mismanagement.

It's a story of the failure of America's regulatory-industrial-media system that enables the company's top leadership to reap huge paydays, putting lives at risk and the long-term viability of the company at stake, while suffering none of the consequences (from the board of directors or government regulators) when things go horribly wrong, as they have.

Absent a total corporate overhaul at Boeing – replacing top executives and grounding and thoroughly inspecting all 737 MAX planes in service – it's only a matter of time before the next mid-air disaster happens.

But here's why that overhaul won't happen. Boeing is hemorrhaging cash, including an incredible $6 billion loss in Q3 alone. And the company has a massive wall of debt coming due over the next few years.

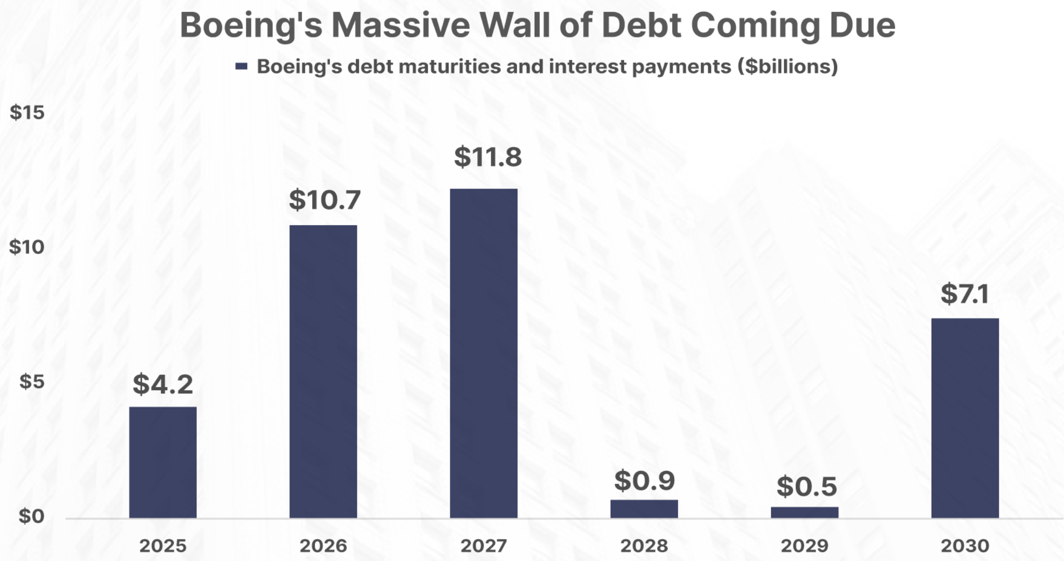
Even if we're wrong, the upside scenario for Boeing is the company achieving the $5 in earnings per share Wall Street analysts currently expect by 2026. Applying a 20x price-to-earnings multiple (Boeing's average valuation in the prior decade from 2010 to 2019) on these 2026 earnings gives a share price of $100, or 30% below its current price of $140. But as we'll show, there's a growing probability that Boeing drowns under its massive debt burden and is forced into a bankruptcy restructuring that leaves shareholders with nothing.

As a result, Boeing shares offer a lopsided risk/reward proposition, with limited upside and potential 100% downside risk. This makes it an ideal short as a hedge that we believe can offer a source of portfolio insurance against a potential bear market.

Debt Might Be Its Biggest Problem

Boeing's 737 plane series has long been the biggest contributor to the company's commercial jet program, which is its only profitable business line. The rest of the business, including Boeing's defense and space programs, has consistently lost money, and is on track to lose $3 billion in 2024.

Following the disruption in 737 MAX production in the wake of three high profile accidents, Boeing has generated over $30 billion in losses since 2020. This has forced the company to rack up a massive $57 billion in debt, a four-fold increase from $14 billion in 2018. The annual interest bill on this debt is now $2.5 billion each year. Boeing now faces a $35 billion wall of debt and interest payments coming due through 2030. And the only hope the aircraft manufacturer has to service and repay this debt is by ramping up production of its troubled 737 MAX.



Adding to this financial hole was the recently settled eight-week strike, resulting in an immediate loss of about $5.5 billion in revenue due to a lack of production by the 33,000 striking workers. Longer term, the costs are even higher. The union machinists won new contracts providing them on average a 38% pay increase over the next four years, expected to add an estimated $1 billion in additional labor costs over the period.

Ramping up 737 MAX production is critical for Boeing to even begin to climb out of its massive debt hole. Because of the immense overhead involved in plane manufacturing, Boeing needs its facilities running at or near-maximum capacity not to lose money. At the peak of its production rate before the two fatal MAX crashes in 2018, the company was churning out 52 737 MAX planes per month. In 2024, it has averaged about half that number, creating a revenue shortfall that is putting the business on track to burn through $13 billion in cash for 2024.

Boeing's struggles to ramp up 737 MAX production has also wrought havoc on its supply chain, including bringing its key fuselage supplier, Spirit Aerosystems, to the brink of bankruptcy. Earlier this year, Boeing announced a de facto bailout of Spirit Aerosystems by agreeing to purchase the company for $4.7 billion. Boeing will finance the transaction by issuing new shares. However, acquiring Spirit means taking on a business currently losing $1 billion a year, and with over $4 billion in debt. Those additional operating losses and debt will now get transferred to Boeing, further pressuring its already-desperate financial situation.

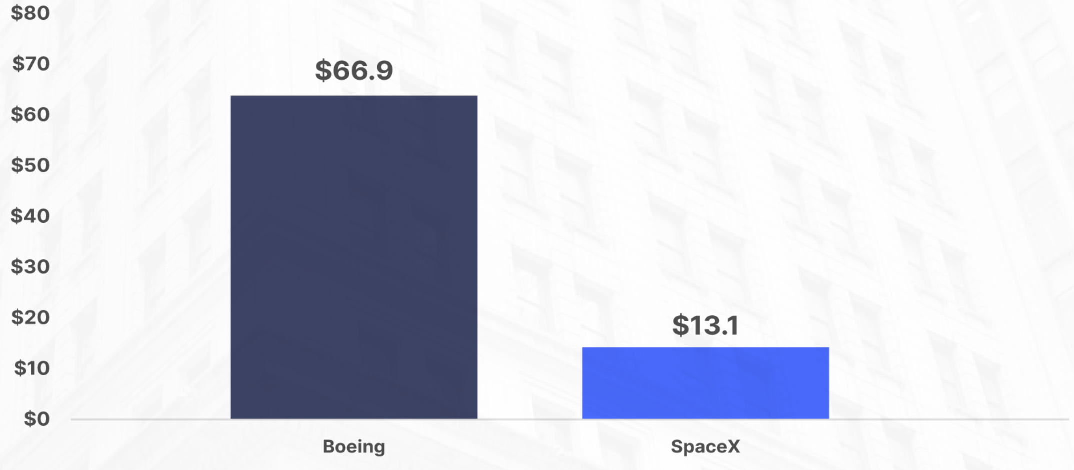
Thus, even if Boeing succeeds in returning 737 MAX production to 2018 levels of 52 planes per month, it will not see a return to the $10 billion in net income from this production posted that year. Relative to 2018, the company now faces substantially higher labor costs, $2 billion in additional interest expenses, and will also be weighed down by the Spirit acquisition. That's why we believe $5 billion in earnings power is the absolute, and unlikely, ceiling for the bull case going forward.

Meanwhile, a series of recent whistleblower reports indicate that conditions on Boeing's factory floor remain as bad as ever. This includes reports that there are currently hundreds of in-service 737 MAX planes that were not properly inspected, claims which the FAA itself have verified. In a sane world, Boeing would be forced to immediately ground and reinspect all of these planes. But this would further delay Boeing's production plans, and add massive costs without delivering any revenue. Instead, Boeing – with a hall pass from regulators – currently has hundreds of planes taking to the skies each day that could suffer similar quality defects that caused the Alaska Airlines door-plug blowout.

This presents a source of ongoing risk of another mid-air accident, which would again shut down its factories, and drive the final nail into the coffin of Boeing's balance sheet.

Thus, Boeing is between a rock and a hard place. If it does the right thing, bankruptcy is almost guaranteed. If it puts off fixing its safety issues, it can at least delay the day of financial reckoning, even if that ultimately leads to more mid-air disasters.

Boeing vs. SpaceX
Lobbying Spending Over the Past Five Years ($millions)



Source: OpenSecrets.org

The aircraft manufacturer has over 100 lobbyists and 17 "government affairs" firms on its payroll. This massive lobbying machine has transformed the FAA, along with other key industry regulators, from being watchdogs to acquiescing to the requests of companies like Boeing.

The FAA's budget has increased from $10 billion in 2000 to $27 billion today. The agency currently has 45,000 employees, which includes around 15,000 air-traffic controllers and around 30,000 employees to oversee and regulate aerospace companies like Boeing.

About 1,600 of these employees work in the FAA's Northwest Regional Headquarters, located just 11 miles away from Boeing's Renton, Washington, factory where it produces the 737 MAX. Of those 1,600 FAA employees working a short drive from the heart of massive, life-threatening airplane-safety issues, a whopping total of 11 – less than 1% – are dedicated to overseeing operations at Boeing's troubled 737 production facilities.

This is the situation *after* that very same factory produced planes that killed 346 people and one that lost a door mid-flight, and the same factory that produced a dismal 62% pass rate of the FAA's own production audits. In September, a U.S. Senate subcommittee raised the alarm at the stunning lack of deployment of the FAA's human resources at Boeing's factory. Here's how the current head of the FAA, Michael Whitaker, responded:

> *"These inspectors are able to walk the line and talk to employees and we feel like we're pretty well covered."*

Whitaker explained that the FAA planned to add two employees at Boeing's Renton factory by year end, upping the total to 13 FAA workers overseeing a 1-million-square-foot factory, with 12,000 Boeing employees working in three shifts around the clock. That is what the head of the FAA calls "pretty well covered."

Some of the legislators pushed back, including Sen. Richard Blumenthal of Connecticut, who noted:

> *"They [FAA employees] don't do the actual hands-on kind of quality control. You're still depending on Boeing employees to look at the parts, to review the assembly, to watch what's going on."*

Thus, even after a series of high-profile plane crashes and regulatory failures, Boeing is largely in control of keeping watch on itself.

That begs the question: what are the thousands of other FAA employees doing all day?

Going After SpaceX

One area where the FAA seems very highly engaged is cracking down on Boeing's number-one competitor in the space arena, Elon Musk's SpaceX. Musk recently explained how FAA bogged down SpaceX's Starship program, producing the fully reusable heavy-lift launch rocket, by forcing the company to perform a study on the threat to sharks and whales in the ocean:

> *"SpaceX had to do a study to see if Starship would hit a shark. I'm like 'It's a big ocean, there's a lot of sharks. It's not impossible, but it's very unlikely.' OK fine, we'll do it, but we need the data, can you give us the shark data?... Eventually we got the data, and the sharks were going to be fine. We thought we were done. But then they hit us with: 'Well, what about whales?'"*

The FAA has also levied $633,000 in fines on SpaceX for "license violations" from two launches performed in 2023. SpaceX published a letter in response, noting that the FAA dragged its feet on approving relatively minor changes to the launch plans, and which were subsequently approved – indicating "no bearing on public safety." Musk has since vowed to sue the FAA for regulatory overreach.

Now, contrast the FAA's ambitious regulation of SpaceX with that of Boeing, and consider the end result.

About a decade ago, NASA selected both SpaceX and Boeing to develop spacecraft designed to transport astronauts to and from the International Space Station ("ISS"). While the mandates were different, Boeing was given a $4.2 billion contract to develop its Starliner craft, while SpaceX received a comparatively modest $2.6 billion for its Dragon vehicle.

Despite receiving 40% less funding, SpaceX was first to launch – completing its maiden voyage in 2020. And its cost per astronaut is around $55 million versus Boeing's $90 million. Meanwhile, Boeing was plagued by design flaws and production failures. When Boeing finally launched Starliner's maiden voyage on June 4, 2024, the craft suffered a helium leak in its propulsion system and failures in its thrusters while delivering two astronauts to the ISS.

NASA deemed the Starliner unfit to return the astronauts to Earth. As a result, the original mission that was supposed to last eight days has left the astronauts stranded (safely) at the ISS for five months, where they remain today. Meanwhile, the SpaceX Dragon vehicle has made nine successful flights to the ISS. And NASA has elected to rely on SpaceX to return the astronauts Boeing left stranded on the ISS, likely sometime in early 2025. In contrast with the FAA fines levied on SpaceX for relatively minor red tape violations, Boeing has not been fined a penny for the Starliner voyage that left two astronauts stranded in space.

Boeing has racked up $1.8 billion in losses for its Starliner program, raising serious doubts about its viability.

So, why is the FAA cracking down on SpaceX, while it successfully makes spacecraft at half the cost as Boeing, which spends twice as much – just to leave astronauts stranded in space?

As the great Charlie Munger once said, "Show me the incentive, and I'll show you the outcome." While SpaceX spends most of its resources building the world's most successful spacecraft, Boeing invests heavily on buying off regulators, like the FAA.

Thus, the regulators in charge of overseeing the aerospace industry have every financial incentive to give Boeing the regulatory green light to produce subpar planes and spacecraft. One could also argue they have a financial incentive to bog down Boeing's competition, SpaceX, with excessively onerous regulatory requirements. Those same regulators enjoy all of the upside from Boeing's lobbying dollars, and suffer no consequences when Boeing's faulty products cause midair disasters or leave astronauts stranded in space.

Meanwhile, Boeing executives benefit from the upside, securing contracts at inflated prices… and they pay no price when their focus on lobbying over engineering results in a product platform, Starliner, that still can't turn a profit despite getting paid more than the competition.

This lopsided incentive structure is the hallmark of our modern-day political and financial system that we call "casino capitalism." That is, an environment where firms like Boeing and its political allies can make reckless decisions with other people's lives and money, profiting handsomely, and paying no price when it all blows up.

Where The Media Takes This Story

And the media, the so-called "fourth estate" that should shed light on these perverse outcomes, has been negligent in bringing this story to the public.

Consider the following commentary from MSNBC host Rachel Maddow in the lead up to the November 5 U.S. presidential election. For the simple act of Elon Musk throwing his support behind former President Donald Trump, Maddow calls for the federal government to cancel SpaceX's contracts, and to "unwind" these companies from Musk's control – regardless of whether Trump wins or loses the election:

> *"But even if Trump doesn't win, the Defense Department and NASA are going to need a new arrangement for all their rockets and for all the multibillion-dollar contracts Elon Musk's companies have with the U.S. government. The U.S. government is going to have to either unwind from those contracts or Elon Musk's companies will have to unwind from him. This is an untenable reality in national security terms now that we know what we know about Elon Musk."*

In Maddow's perfect world, SpaceX's contracts would go to Boeing, where NASA could pay twice as much and end up with astronauts stranded in space. And why? Possibly because Boeing spent over $600,000 in political contributions for the "right" presidential candidate, Vice President Kamala Harris.

Maddow isn't alone in calling for Elon Musk and SpaceX to fail. Dave Troy, a self-described "investigative journalist addressing threats to democracy" posted the following on X on November 8:

> ***"If you want to fight Trump, the most effective thing to do is f*ck up Musk as hard and as soon as possible, within all legal limits of the law, the Constitution, and the rules of war. Revoke his citizenship, declare him an enemy combatant, indict him, seize his companies, nationalize Starlink. Whatever can be done, do it. Now."***

Is there anything more un-American than waging war on the most innovative entrepreneur of our generation, simply because he supported the "wrong candidate" in a presidential election? And all under the guise of "addressing threats to democracy."

Expect more of this from the mainstream media over the next four years. Especially if Trump follows through on his promise to unleash Musk's cost-cutting prowess onto the bloated, ineffective, and politically captured regulatory apparatus ruling corporate America.

There are fortunes at stake for politicians, regulators, and the politically-connected corporations like Boeing that spend tens of millions in order to secure billions in both direct and indirect benefits from exerting their influence on Capitol Hill.

Ironically, Elon Musk may be one of the few people who understands how to safely operate and oversee a successful aerospace firm. But if the incoming Trump administration puts him in a role to make that possible, the media-lobbyist-industrial complex, whose fortunes are at stake, will likely use every dirty trick in the book to fight him.

Shorting Shares Of Boeing

As for Boeing, in either case, we see no easy way out of its current dilemma. If it does the right thing, including grounding existing planes for safety checks, hiring more workers, and slowing down production to ensure quality and safety over short-term profits, it will struggle to generate enough cash flow to service and repay its $57 billion in debt obligations. And if it continues business as usual, it's only a matter of time before the next mid-air disaster.

Even in the best-case scenario where Boeing ramps up production back to peak levels of more than 50 planes per month, its profit potential will be capped by surging labor and debt servicing costs, plus the additional burden of acquiring its struggling fuselage supplier, Spirit Aerosystems.

Over the next two to three years, we see no long-term upside in Boeing shares even if everything goes perfectly. Along the way, if Boeing runs into any problems at all, like another plane falling out of the sky or a recession, it will drown under the weight of its $57 billion debt burden.

Thus, Boeing shares offer everything we look for in a short candidate: all downside risk, and limited upside potential. And we believe this should offer a form of insurance policy to help offset losses elsewhere in a portfolio in the event of a recession or bear market.

That said, in the short term, stock prices can and often do diverge from their fundamental earnings power. Given the risks involved with short selling, where losses can quickly spiral out of control if not contained, we are recommending a stop loss of $210 per share, or 50% above current levels. We also urge investors to size this position appropriately, in order to withstand the potential for shares to move as much as 50% higher.

If that happens, we would recommend exiting the position in order to limit the potential losses.

Action to Take: Short shares of Boeing (NYSE: BA) above $125, with a stop loss at $210 per share

For readers who aren't familiar with shorting shares, the process is very similar to buying shares, except the orders are reversed: you sell to open the trade, and then buy to close.

The first step is to ensure you have the trading permissions from your brokerage provider, including the option to make short sales, as well as margin borrowing capabilities. Once you have these trading permissions, most brokerage platforms will have a field where the user will input the ticker symbol of the company, and an option to "sell short" or "sell to open" for initiating the short sale. When the time comes to exit the trade, you will then "buy to cover" or "buy to close" the short position.

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** here: **@porterstansb**