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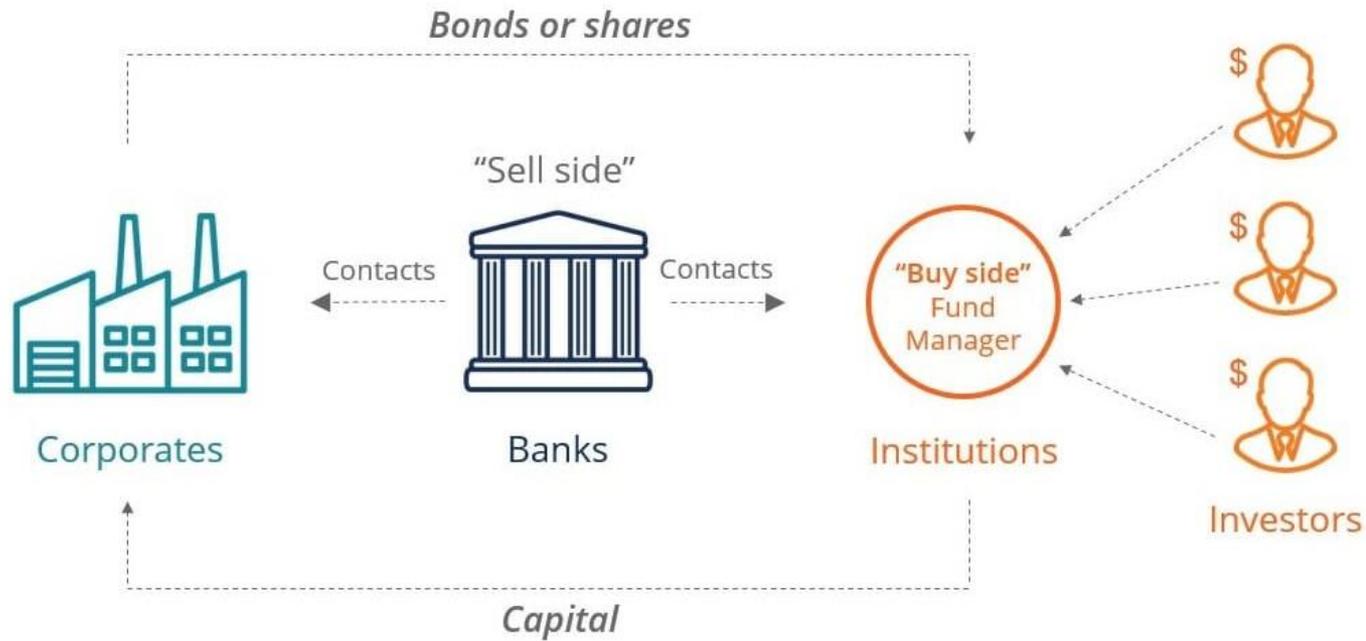


KRAINOS
CAPITAL

Paul Enright, Managing Partner

BUYSIDE V SELLSIDE: WHAT DOES THAT MEAN?

THE BUSINESS OF FINANCE



SELLSIDE V BUYSIDE

SELLSIDE CAREERS

Investment Banking

Sales & Trading

Research

Commercial Banking

Prime Brokerage

Advisory Services

Data Services

BUYSIDE CAREERS

Venture Capital – Institutional

Private Equity/Credit - Institutional

Public Investing – Institutional

- Mutual Funds

- Hedge Funds

Investing in Investors – The Institutions

Investing Your Own Money

- Family Office – like an institution

- Retail – as an individual

Businesses \Leftrightarrow Capital \Leftrightarrow Services \Leftrightarrow Investments

HOW DO I KNOW WHAT I WANT TO DO? A BASIC FRAMEWORK FOR DECIDING

- 1.) RISK - What is your tolerance for taking risk?
- 2.) CREATIVITY - Are you creative AND analytical?
- 3.) SERVICE - Do you want to serve clients or be a client?***
(hint – everyone is a “client” of someone unless it’s your money. But HOW do you want to serve?)
- 4.) ACTION - Do you want to think about ideas or act on them?
- 5.) CONTROL – What do you want to control?

DEFINING THE HEDGE FUND ANALYST ROLE

TWO PIECES TO INVESTING

1.) Stock Picking

- Is this idea interesting?
- Involves digging and thinking to find informational and analytical edges
- Requires process

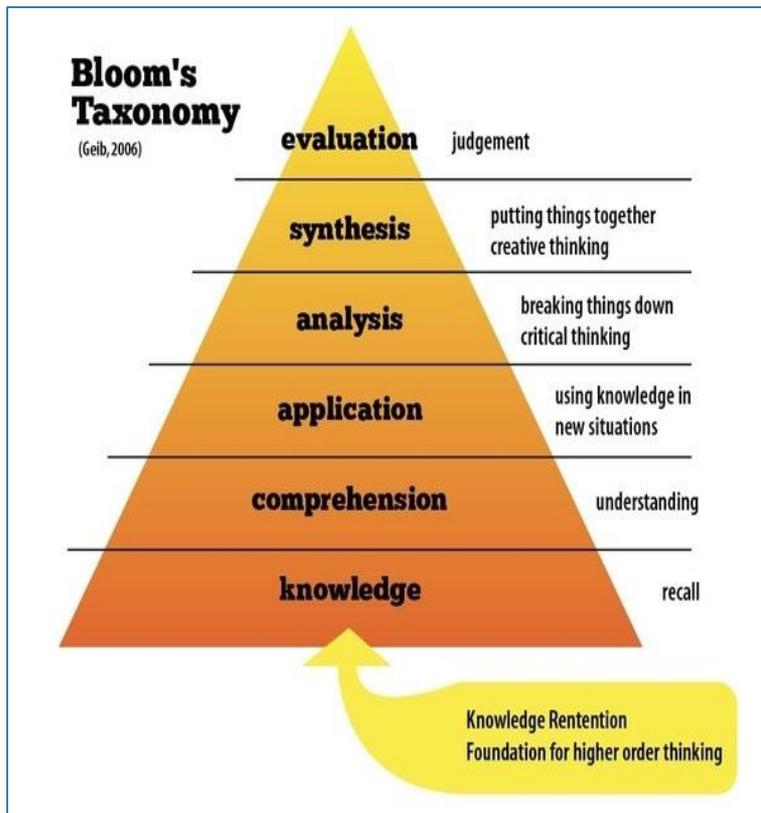
2.) Portfolio Management

- How do these ideas compare to one another?
- Involves thinking and acting to find analytical and behavioral edges
- Requires process

TRAITS OF A SUCCESSFUL ANALYST

- 1.) Discerning
- 2.) Creative yet disciplined
- 3.) Commercial, yet humble
- 4.) Confident, yet adaptable
- 5.) Communicator
- 6.) Curious

INTELLIGENCE vs JUDGEMENT



Intelligence is necessary, but not sufficient.

Judgement is more important than Intelligence.

Everyone can **remember** information

Most can **understand that info**

Some can **interpret and analyze**

Few can truly **assess and author**

CREATIVE AND DISCIPLINED

Efficiency requires discipline.

Discipline requires a stable routine.

Discipline requires a strict and controlled work environment.

Ideas require creativity.

Creativity requires flexibility.

Creativity requires a loose and flexible work environment.

GREAT ANALYSTS MANAGE THIS TENSION!!

"Discipline equals freedom."

- Jocko Willink, Author and Navy Seal

COMMERCIAL INSTINCTS

Would you rather be right or win an argument?

Would you rather make money or make a point?

Are you trying to impress me with your intelligence or your ability to make money?

Everyone will describe the role in a polished way, but the job is to be a money maker.

COURAGE AND CONVICTION

CONVICTION

The idea itself is a commodity.

The value of an idea is in possessing the conviction to do something with it.

The value is in staying convicted when faced with volatility.

The value is in making a decision of what to do and not to do with the idea.

LOOSELY HELD

“When the facts change, I change my mind. What do you do, sir?”

- John Maynard Keynes

“The most important thing to do when you find yourself in a hole is to stop digging.”

- Warren Buffett

“People who are right most of the time are people who change their minds often.”

- Jeff Bezos

STRONG IDEAS, LOOSELY HELD

EFFECTIVE COMMUNICATION



Own the ideas – from inception to monetization.

Your job is to make money.

You are an entrepreneur; a sole proprietor.

Make your PM understand.

Great PMs get the best out of their analysts; there are very few great PMs.

Great analysts get the best out of their ideas; regardless of their PM.

PASSIONATELY COMMITTED TO THE WORK

Investing is like politics and sports. EVERYONE has an opinion on stocks.

That doesn't mean you should dedicate your career and in many ways your life.

If you have a passion for understanding businesses, there is always consulting, banking, sell side research, corporate strategy

Investing involves digging, thinking and acting. That's the job.

Everyone wants the right to have a think and an opinion.

Not everyone wants to do the digging necessary to truly earn that right.

Not everyone wants the responsibility for acting on the opinion.

Are you committed to doing the work, day in and day out?

SUMMARY: 5 TRAITS TO DO 3 JOBS

JOB #1: Generate Ideas

Use your intelligence, judgement and creativity to generate ideas.

JOB #2: Pitch Ideas

Be courageous and communicative to get those ideas into and out of the portfolio at the right time.

JOB #3: Repeat 1 and 2

Be passionate, focused, productive and committed to doing it again and again and again.



Job #2: The Stock Pitch

3 TYPES OF PITCHES

1.) 20 Second Pitch

2.) 3 Minute Pitch

3.) 20 Minute Pitch

20 Second Pitch

The Thesis – aka - The MOST Important Thing

Example – Meta (META)

“META is a long. Numbers are too low. Mark Zuckerberg is a stubborn and focused leader. He once wore a tie for a year because he had made it a goal. He has decided 2023 will be a year of efficiency. The combo of that efficiency with easing FX and ATT headwinds coupled with growing reels monetization will lead to a virtuous EPS revision and multiple expansion cycle. The revenue is very cyclical, but with cost cuts and buyback the multiple will be supported even in a bad economy. Can we find time to discuss?”

For practice, pepper your friends and classmates with 20 second pitches on anything.

What Is The Most Important Thing?

It is the differentiated view you possess about a specific part of the business that leads to a differentiated view about the direction of a number or series of numbers in one of the three financial statements.

It does not require being contrarian about the direction of the consensus view.

It may be a mere matter of degree, second derivative change, or an extreme polar opposite view.

It is more than likely the most important thing is a new way or wrinkle to be more positive or more negative on a consensus long or short.

Often times, the thesis involves disproving rather than proving

The most important thing must always be a combination of narrative and numbers.

3 Minute Pitch v 20 Minute Pitch

Always be prepared to give the 3 minute or 20 minute pitch.

Bring materials which enable you to do either.

Sometimes a 3 minute pitch turns into 20 minutes.

Sometimes a 20 minute pitch needs to be shortened to 3 minutes.

All pitches highlight the most important thing.

3 Minute Pitch

Materials to Bring

- 3 page model
- 1 page detailing most important thing
- All supporting materials for a 20 minute pitch.
- You never know where the 3 minute pitch will lead.

Goal of the Pitch

- Reasons to do a 3 minute pitch -
- 1.) PM is already familiar with the company
 - Pitch updates numbers/thesis.
 - Pitch highlights **most important thing**.
 - 2.) PM is very busy/it's earnings season and the idea is urgent and actionable.
 - 3.) Setting the tone for a follow up 20 minute pitch.
 - 4.) It's a simple thesis.

20 Minute Pitch

Materials to Bring

- 3 page model
- 10-12 slides
- Clearly defined thesis upfront
- Immediately followed by facts that support the thesis
- Chart, comp multiples, and knowledge about management

Goal of the Pitch

- 1.) A pitch is a commercial transaction not an academic exercise.
- 2.) All pitches should end with a yes, no, or a clear understanding of what can get you to yes or no.
- 3.) A PM should walk away impressed with the quality of the pitch, even if disagreeing with the conclusion.

20 Minute Pitch

DO THIS

- Zero in on the most important issue.
- Mix math and narrative.
- Use both industry and universal language.
- Be specific when possible.
- Say “I don’t know, but will figure it out” when you don’t know.
- Use the right tone.
- Concede the weaknesses of your thesis before having them pointed out for you.



NOT THIS

- Vomit everything you learned.
- Save the conclusion for the end.
- Only know one valuation metric, ie, its usually EV/EBITDA.
- Rely on “good business” as a long thesis.
- Or “bad business” as a short thesis.
- Or valuation as the first bullet point.
- Or the classic “time will bail us out”.
- Be dismissive of any questions.



General Advice

- Experience = perspective and knowledge
- Inexperience = hunger and passion
- Leverage your inexperience to your benefit
- It's ok to say "I don't know" and move on
- If you want to be free you have to be disciplined
- Say yes to everything early on. Out work everyone.
- As time passes, start to say no. Out think rather than out work.
- Be patient. Success happens slowly, then suddenly.
- Value time as you value money.
- Get up and move. The body requires movement to thrive. The brain requires stillness. Give your brain a rest by moving your body and you will generate more ideas.

Summary

- Learn more about yourself
- How = Practice Practice Practice
- Loosely Held, Well Communicated Conviction Makes Money
- Intelligence = Necessary \neq Sufficient
- Judgement >>>> Intelligence
- Actions >>>> Ideas
- Actions \Rightarrow Synthesis
- Actions = Communication and Courage
- A Pitch = Business Transaction
- A Pitch \neq Academic Exercise