

Marketplace Interview With Steven Kiel - The NOL Newsletter

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by: Richard Berger

Summary

- The NOL Newsletter is the work of Steven Kiel of Arquitos Capital Management.
- In this interview, Mr. Kiel gives us an exclusive inside look at The NOL newsletter, its content, methods, and the man behind it.
- With a strong analytic and logic background, Mr. Kiel uses his background, training, and experience seeking to transform the lead weight of Net Operating Loss into tomorrow's gold.



Alchemy, the age-old quest to transform basal substances into gold. The NOL Newsletter is helping investors find low priced value-based opportunities in net operating loss companies and transform them into the gold of profits.

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Steven Kiel of Arquitos Capital Management shares an inside view to the people, methods, and work which are The NOL Newsletter, found only here in Seeking Alpha's Marketplace.

Arquitos Capital Management is the general partner of a value-oriented hedge fund, Arquitos Capital Partners. Launched in 2012, Arquitos Capital Partners focuses on company-specific situations such as reorganizations, recapitalizations, liquidations, spin-offs, break-ups, rights offerings and other unique circumstances.



The fund's priority is to find hidden value that doesn't show up on traditional screens. We are heavily focused on companies with Net Operating Losses (NOLs) that will be or are in the process of being utilized. Typically the company with significant NOLs has had a change at the board and management level, has shed operations, entered a new line of business, or made an acquisition. These companies are incentivized to focus on positive, predictable cash flow, and the new board and management often have an above average understanding of effective capital allocation.

From information provided by Mr. Kiel and Seeking Alpha, we learn that Steven L. Kiel is the portfolio manager at Arquitos Capital Partners. Steven has been quoted in The Wall Street Journal, Bloomberg, MarketWatch, Deal Journal, The Atlantic, USA Today, and other publications. He is also a captain and judge advocate in the Army Reserves and a veteran of Operation Iraqi Freedom. Steven is a graduate of George Mason School of Law and Illinois State University, and is a member of the bar in Illinois and Washington, D.C. A Chicago native, he lives with his wife and two golden retrievers in Coronado, CA.

This interview was conducted by submission of written questions with an opportunity for follow-up as needed. A current index of all the Marketplace Interviews is available for you to explore more opportunities in depth.

The Interview:

(RB): Please share with us a bit about your personal background. Where you grew up, the type of social and financial background you were used to while growing up, what your hobbies are, anything you think might be of interest and help people know the whole you.

(SK): My background is as an attorney. Prior to that I had worked for a think tank in Washington, D.C. for about six years while going to law school at night for part of it. I am

also a Judge Advocate in the Army Reserves and a veteran of Operation Iraqi Freedom.

I grew up in a blue collar household with an appreciation for upward mobility. I spent part of my childhood in the Chicago suburbs and part in southwest Florida. I was always competitive, whether it was sports, academics, or whatever. Unfortunately about 30 years ago I chose the Chicago Cubs as my favorite sports team, so I've experienced loss as well.

(RB): Thinking back, what are the key lessons you have picked up over the years that are important to investing and how did you encounter them?

(SK): I'm a value investor and I do believe that there are inherent traits that draw value investors to this type of investing. I've always been a contrarian, which I think is a valuable trait to have as a value investor. I'm interested in absolute valuations, not relative. I appreciate and enjoy the psychological side of investing. And I am highly skeptical of predictions.

The more mechanical side of investing is learned, but it helps tremendously to be pre-disposed to be analytical.

(RB): Can you tell readers about your own personal investing goals and strategy?

(SK): I run a small hedge fund that I started in 2012. The idea was to model the strategy after the Buffett Partnerships. The goal is to find hidden value, or the parts of the markets that are not efficient. Basically I look at it as arbitraging the intrinsic value of a company with its stock price.

Over the last few years I've found a lot of hidden value in companies that have large and long-dated Net Operating Loss (NOL) carryforwards. Essentially, these companies lost a great deal of money at some point and then had some sort of break from the past. An activist may have gotten involved, the company may have sold a money-losing subsidiary, or a company may have come out of bankruptcy while retaining its NOL assets. You can read more about how I look at these types of investments in the report here: [How We Think About NOLs](#).

There are a lot of positive attributes in these types of companies, as long as investors are selective. Companies with large NOLs attract effective capital allocators. They focus management on cash generation and cause them to take a conservative approach with capital improvements to ensure an attractive return on their investment. There are funding advantages for the company. And, of course there is the tax savings. My view, though, is

that the value of the NOLs are not in the NOLs themselves. The value is in the incentives that the NOLs create.

(RB): Does this strategy play a role in your Premium Research? If not, how does your Premium Research work differ, and why?

(SK): The NOL Newsletter identifies attractive NOL companies and provides ongoing research and updates on them. My fund doesn't exclusively invest in NOL companies, but they do make up a large percentage of our holdings. The NOL Newsletter also follows activist investors who are active in the space. We've already done an interview with the management of one NOL company, CEO Craig Bouchard of Real Industry (NASDAQ:RELY), and will have more in the future. We're looking at all of the companies with large NOLs, curating them for our subscribers, and then giving them the tools and resources for deciding if it's an attractive investment for them. We don't do buy or sell recommendations. We provide research on companies that are typically not otherwise covered in order to help our subscribers make investment decisions.

(RB): Can you describe your target audience?

(SK): Our audience tends to be more sophisticated than average. A subscriber doesn't need to understand NOLs, but they do need to be attracted to the idea of finding hidden value. We use the idea of NOLs to narrow down prospective investments. After that we look at all aspects of a business, so subscribers are attracted to the idea of partnering in an investment with effective capital allocators, or looking for companies that are cheap from the perspective of a value investor, or being comfortable with some uncertainty where the incentives in place may lead to asymmetric gains.

(RB): What specific minimum performance metrics do you expect subscribers will obtain annually from working with you?

(SK): The results are up to the subscriber. We provide research to them that helps them make their own decisions. Most of the names we cover do not have sell-side coverage, so subscribers will have an information advantage over other investors on the names we cover.

Investors should never buy or sell a stock simply because someone tells them to, no matter if it's Warren Buffett telling them to buy something, or someone else. Investors need to decide for themselves after reviewing relevant information. Investing is a psychological sport much more than anything else. The price of a stock cannot be

predicted with any accuracy in the short term, so the only way to get psychologically committed to owning a company is if an investor fully commits to their decision.

(RB): Please describe the work you provide subscribers. Is it in the form of a typical Seeking Alpha article? A report? Insights into what is about to be hot and what not? Does it include specific actionable trades? How many times a month do you provide content for your subscribers?

(SK): We provide updates several times per week, as well as when relevant news occurs. The idea is to provide initial coverage on a company and then provide an update on that particular company after their quarterly results and after any company-specific news occurs. We've looked at five or six companies already and put up 12 posts since we launched a little more than three weeks ago.

A good example on what to expect going forward is our coverage of SWK Holdings (OTC:SWKH). The articles we've published on SWKH have looked at the warrants they own, have provided a reference guide to the stock, warrants, and preferreds that they own, and looked at the value created by the buy-out of one of the companies where SWKH has a large ownership stake. We have an in-depth piece going up in the next few days. Going forward we'll provide an in-depth write-up and quarterly updates. We'll also post articles on the company as newsworthy events occur.

We're also looking through all of the companies owned by Steel Partners (NYSE:SPLP). We're providing regular updates on ALJ Regional Holdings (OTC:ALJJ). Over time we'll continue to add coverage on companies like Green Brick Partners (NASDAQ:GRBK), Trinity Place Holdings (NYSEMKT:TPHS), and others. We'll also look at the holdings of Jeff Eberwein of Lone Star Value, Jonathan Couchman, Warren Lichtenstein, and others who are active in the NOL space.

(RB): Does your writing for Seeking Alpha influence your own investing?

(SK): The fund has already been active in the NOL space. The types of companies we're interested in don't effectively show up on screens, so it's been helpful for readers and subscribers to suggest companies for us to look at.

(RB): How long have you been offering your service here on Seeking Alpha? Do you have any other financial services you offer elsewhere?

(SK): We launched The NOL Newsletter in early June. If you'd like to learn more about Arquitos Capital Management, you can visit our website.

(RB): We hear a lot about the desire for transparency from our readers on Seeking Alpha. How do you provide non-subscribers information about what they will get from your Research and what your track record is to date?

(SK): We'll occasionally make public some of the exclusive research we're providing, so non-subscribers can get a taste from that. A good example from before the service launched was a quick update we did on WMI Holdings (WMIH).

(RB): What is the general time horizon over which your ideas develop?

(SK): We provide information and research, but it depends on the subscriber's decision as to whether they should buy or sell a stock. For example, we put up a piece on DGT Holdings (OTCPK:DGTC) last week. At some point it will likely hit a price point that will make it an attractive investment, but right now it's probably close to fairly valued given the underlying holdings. We'll provide ongoing coverage on the company, but there is no time horizon involved. When the discount to its NAV gets larger, we will probably highlight that fact but, again, the decision to buy or sell depends on the investor.

For WMIH, when they make an acquisition we'll analyze it and attempt to value the company. Until that acquisition happens, we'll follow along and provide updates. We'll look at whether there is value over the long term.

(RB): What is one of your ideas that has played out its course and what was the result?

(SK): We put up a piece on ALJJ in February last year. It was a company we've owned since the fall of 2012. Even last year it was undervalued despite a large run-up. The company traded at \$1.74 at the time of publication and is now near \$4.00. We still own it, though it's now close to its fair value. We've provided an update and a stab at valuation in The NOL Newsletter a few weeks ago.

(RB): Do you have a current idea that is developing which you would like to share with us?

(SK): WMIH is an interesting one to follow. It's a KKR-controlled shell company with massive, long-dated NOLs. It's the old Washington Mutual. It's very likely that they will be making an acquisition some time soon. The price has run up a bit and now trades for about twice their net cash level, which is higher than I like for these types of things. However, deal flow isn't a problem here and I'm sure they'll be analyzing quite a few interesting acquisitions. It's just a matter of being patient while the thesis plays itself out.

(RB): Any parting thoughts you would like to offer here?

(SK): I appreciate you taking the time to do the interview, Richard. The NOL Newsletter looks at a very specific part of the market. It's a niche that can be very lucrative. Investors should always look at the downside first, in this market environment, in particular. The companies we follow tend to be safe on the balance sheet side and offer the potential for asymmetric gains. The key is to discover these companies when there is some uncertainty involved and before larger investors are able to get involved. It's our goal with the newsletter to identify NOL companies with these attractive characteristics, provide ongoing research about them for our subscribers, and help our subscribers decide for themselves whether a particular company fits into their portfolio.

(RB): Thank you for sharing a look into The NOL Newsletter with us. I have a much deeper understanding of the work, its goals, and strategies now. I believe our readers do also. I am sure they will have further discussion to contribute in our comment section below. I hope you will be able to respond to their further on-going questions. I consider the comment section an integral portion of all my work I do here at Seeking Alpha.

Interested readers will find Premium Research from a variety of authors in Seeking Alpha's Marketplace. As a Premium Research author, myself (Income From Covered Option Writing), and as an investor, I am conducting a series of interviews with our Research authors to learn more about the specifics of each offering and what common threads run through The Marketplace, as well as what makes each offering unique. In these interviews, I hope to reveal the specifics any subscriber can expect from a Premium Research provider, including the strategy and goal focus, the methods used, performance metrics achieved and expected (but not guaranteed), and the people behind the work.

Disclosure: I am/we are long SWK. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Comments (3)

worthlake

Steve or Richard....as a shareholder of syte which was recently reorganized by Stephen I was wondering what the potential is going forward with this company I consider it a small Buffett Enterprise by survivors who were in a Lifeboat and managed to bring this thing back to Port and refitted it ... I took a strong position for me in this company based upon Stevens management ability and consider it a true value play any comments from either of you is appreciated there's limited information and if you can Enlighten the room with your Brilliance it would be

appreciated

24 Jul 2018, 05:28 PM

Richard Berger

Contributor PREMIUM Marketplace Guide

Author's reply » Great Steve,

It was a pleasure getting to know you and your work better. The NOL space is one that is basically new to me and probably to many of our readers too.

Richard

24 Jun 2015, 01:01 PM

Arquitos Capital Management

Contributor PRO

Richard- Thanks for hosting this q&a. If any readers have questions, I'm happy to answer them in the comments section here.

24 Jun 2015, 12:53 PM