



A New Way to Make Money: Welcome to Peloton



By Howard Lindzon

“ Hey, Howard, what’s all this ‘peloton’ stuff?”

I get that all the time.

“Peloton” is a professional cycling term. I’m a huge fan of cycling, as a spectator sport, sure, but more so, absolutely, as a form of meditation.

I like to ride and think.

But the peloton does fascinate me. It’s the main group, the integrated unit of racers who combine like birds flying in formation.

They share resistance to wind. They change shape according to wind patterns. They shift leadership to balance fatigue load.

And, after all that, they travel 40% faster than any single rider can on their own.

It’s a beautiful metaphor.

It’s a particularly beautiful metaphor for the way I like to invest.

For me it’s all about momentum, trend-following, and sharing ideas.

For all I’ve benefitted from the many, many smart people who’ve shared with me, *Peloton* – first and foremost – is my opportunity to share with you.

Indeed, a major part of my role as an angel investor is to mentor younger founders of promising companies. If you’re managing your own money, you’re an entrepreneur too.

So, with *Peloton*, I want to share with everyday investors, young and old, all the market knowledge and experience earned over a 26-year career as an entrepreneur, an angel investor, a private equity partner, a hedge fund manager, and a trader.

It’s the right network, with the right insights, offering the right advice.

A New Way to Make Money

“Wall Street” has changed.

My friend Barry Ritholtz – who, along with “Downtown” Josh Brown, is himself disrupting the money-management business by offering rational, client-friendly, diminishing-over-time fee structures – recently posted about the “old days” on his blog *The Big Picture*.

The really old days...the “When EF Hutton talks...” days...

“Smith Barney...we make money the old-fashioned way...we earn it.”

I love John Houseman, but, come on now.

Those days are over. Way over.

No longer are even the JPMorgans and the Goldman Sachs, the Jamie Dimons and the Lloyd Blankfeins at the head of the Wall Street peloton.

The financial services industry has been disrupted. It's one of the biggest trends I'm following right now, in all my various roles.

The "FinTech" revolution is indeed a function of scientists and software engineers grabbing power from old-timey interests.

I ride with those guys. Investors who get close to scientists and software engineers and invest in the code make the money.

There's no better example of that than Robinhood, which is the fastest-growing stock brokerage firm – ever.

To dot the i's and cross the t's, I'm one of the original "seed" investors in Robinhood.

In December 2013 a group including Marc Andreessen's and Nasir "Nas" Jones's venture funds put up a total of \$3 million to help Robinhood max out its potential.

It was simply an app designed to track stocks – with the longer-term idea to create the first mobile and free stock brokerage.

When I invested I had a glimpse of the initial design and the basic pitch, but Robinhood had not yet been approved by securities regulators for its major objective. It was, of course, very risky.

But six months later Robinhood got regulatory approval to become a broker-dealer.

Our seed funding helped it develop technology that enables you to buy and sell stocks using an app on your smartphone.

Robinhood, in short, is the first zero-commission stock brokerage in the world.

Its latest funding round, a \$110 million Series C completed in April 2017, puts its valuation at \$1.3 billion.

It's a great service. Free stock trades? Yeah, pretty great...

It's based on great tech: It was the first financial app to win an Apple Design Award, in June 2015.

And it's finding a market – in fact it's doing that faster than any stock brokerage, ever. It recently passed 2 million users.

Apps like Robinhood and forums like StockTwits – the idea-sharing platform I co-founded – make investing accessible to anyone.

I can't wait to see what crypto currencies and blockchain technology will do to further upend the way we do business, not just financial services but any type of legal and/or commercial transaction you can imagine.

We're democratizing the market.

How *Peloton* Works

In each monthly issue, we're going to take a deep dive into a compelling trend, including the major companies shaping it, the minor companies drafting off it, and the startups looking to disrupt it.

We'll also provide at least one actionable recommendation.

Here's a breakdown of our equity selection process.

"Price" is the single-best piece of information about a particular stock – the very first thing that matters. Price is the result of millions of eyes and ears and real machines contributing their views on the values of stocks I look at everyday on my watch-lists.

It's my big data and small data all in one.

We use price as our primary signal of new opportunity. We're looking, specifically, for a breakout to a new 52-week or all-time high from a great technical base.

Making a new 52-week or all-time high is a strong indicator of more gains to come.

A breakout basically guarantees that we're putting money to work in a fast-moving stock – one that's likely to move in our favor right after we establish our position.

After price, I look to people. I don't look to institutions, though many smart people live inside institutions. I used to look to institutions as my investing career began. Institutions slowed me down. They lied to me.

The financial institutions of the 1990s did not want you to learn the language of the markets. They will slow down your own investing learning curve.

And financial institutions are still lying.

We also need to understand the catalysts that will drive the stock's performance.

The underlying company either operates in a hot industry, or it's posting remarkably strong sales and earnings growth.

Sometimes it bears both characteristics: a company in a hot industry posting remarkably strong sales and earnings growth.

That's what we like to call "the jackpot."

So how do we find 1,000% stocks?

We can start by identifying characteristics common to such big movers:

- They have high price-to-earnings ratios (P/E). Often their P/E ratios are downward sloping, reflecting big earnings explosions.
- They're boring but consistent underlying businesses. They attract more customers who spend more money. And they enjoy increasing pricing power.
- The "allure" often is greater than the "reality." So much of so many big moves is driven by

pure emotion.

- They have good business models. And they back these models with heavy investment in the future.
- They are run by smart managers.

Holding the next great stock – through all the inevitable ups (some of them big) and downs (some of them even bigger) – and then *selling* at the right time, as the company moves into its mature phase, is the hard part.

So we prefer to talk about an exit strategy rather than just setting stop-losses.

That's not to say we don't use stop-losses; we do.

In fact, the “great technical base” clearly defines where we'll place our stop-loss.

If this level is breached, then our thesis is wrong. We accept it, take our loss, and look for new opportunities.

But our exit strategy is more nuanced. We exit in two ways:

- On strength: We take partial profits when a stock is super extended and has had a good recent run.
- On weakness: We sell when a position pulls back and closes below its 50-day or 100-day moving average. We use a 50-day moving average for small- and mid-caps and 100-day moving average for large caps.

The purpose of stop-losses is two-fold:

- To protect gains: The moving averages we use act as trailing stops.
- To keep our losses small when we're wrong.

Our initial stop-loss is usually below the low of the most recent base, which often coincides with a stock's 50-day moving average. The stop is usually between 5% and 10% of our entry.

This is why a good entry is so important: It helps to keep our potential loss small, while it also provides the opportunity to make multiples of our initial risk.

Investment decisions for our *Peloton* are ultimately grounded in three basic concepts.

Number one is proper equity selection, which includes timing. Price is a key element here. We focus on stocks that appear on the 52-week and all-time-high lists.

Basically, we want to buy the right stock at the right time.

Number two is exit strategy. Knowing when to sell is just as important as knowing when to buy.

Number three is diversification. We always want to have more than one good idea. Ultimately, a portfolio of 10 to 12 individual stocks probably makes sense for most of us.

Peloton Particulars

In addition to the right network, the right insights, and the right advice, your place in our *Peloton* gets you:

- **The monthly issue**, published on the web (www.laughtradeprofit.com) the first Friday each month, with a print issue delivered via traditional mail.
- **A free copy of my book**, *8 to 80: The Next 1,000% Stocks and Trends Everyone Can Ride*.
- **Daily commentary**. You'll have access to my idea sandbox, where I offer often pithy (and sometimes profitable) remarks on the world around us.
- **Weekly alerts**. We'll cover new developments on big ideas, and we'll also update buy/hold/sell advice as necessary.
- **A monthly mailbag**. I'll answer questions from subscribers, including you. Reach out. Engage. I want to learn from you too. Send questions, comments, and ideas to peloton@laughtradeprofit.com.
- **24/7 Access** to a private member's only website. Everything is posted to a password-protected website. No matter what time zone you're in, or what time of day it is, you can stay ahead of the market.
- **Exclusive video content**. We start with *The Bitcoin Playbook: How to Profit from Cryptocurrencies: An interview with Venture Capitalist Fred Wilson*. We cover everything you need to know about bitcoin and blockchain technology.
- **A VIP concierge team**. If at any point you have questions about your membership or want to know how to make the best use of all the resources I'm making available, just call or shoot an email to a dedicated support line peloton@laughtradeprofit.com They'll be happy to help.

To make use of all these resources you'll need a brokerage account.

I've already mentioned Robinhood (www.robinhood.com), the FinTech startup, but my interest was more in exploring the relationship between scientists, software engineers, and entrepreneurs and the Wall Street they're collectively disrupting.

I have a venture stake in Robinhood because I believe in the technology. You might be interested in checking out the app, which is available via Google Play and Apple's App Store.

And here's a list of well-known brokers to help you get started with *Peloton*.

- **TD Ameritrade** – www.tdameritrade.com – 1-800-454-9272
- **Interactive Brokers** – www.interactivebrokers.com – 1-877-442-2757
- **Charles Schwab** – www.schwab.com – 1-800-435-4000
- **Fidelity** – www.fidelity.com – 1-800-343-3548
- **E*Trade** – www.etrade.com – 1-877-921-2434
- **Scottrade** – www.scottrade.com – 1-800-619-7283

- **Trade King** – www.tradeking.com – 1-877-495-5464
- **Trade Monster** – www.trademonster.com – 1-877-598-3190

Welcome to *Peloton*.

We're grateful to have you riding with us. Together we can go much faster than we can alone.



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