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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Eyeing Fintech, Regional Banks, Travel as Rising Sectors in the Coming Year

RANDY WARREN is Chief Investment Officer of Warren Financial Service, a registered investment advisory firm. He also manages WFS Funds, the institutional division of Warren Financial Service, which includes hedge fund and private equity investment products. Mr. Warren's investment expertise has been featured in *The Wall Street Journal*, *The New York Times*, *USA Today*, *Financial Times*, *Barron's*, *Forbes* and *Fortune*. He has appeared on CNBC's "Worldwide Exchange" and has provided insight to highly respected online providers of financial news, including Reuters, Bloomberg, The Street and MarketWatch. Mr. Warren joined the firm in 2000, after spending nine years as Chief Technology Officer at FNX Limited, where he was responsible for creating sophisticated trading and portfolio modeling tools. Clients included some of the world's largest financial institutions including Bank of America, Citigroup, Barclays and Merrill Lynch. Among his civic duties, Mr. Warren volunteers with several organizations such as Peacemakers where he provides pro bono financial counseling to individuals and families in need. He has also authored the book *Kingdom Builder* in 2008, which guides readers in establishing a philanthropic approach to financial management. Mr. Warren holds an MBA in finance from West Chester University and earned his B.S. in computer science from University of Delaware.

SECTOR — GENERAL INVESTING

TWST: Could you please start with a brief overview of the firm and some history?

Mr. Warren: We believe that investors can still achieve their piece of the American Dream by investing in great companies. We believe there is opportunity for longer-term investors to achieve substantial wealth accumulation and wealth preservation. We help investors on their journey by creating totally customized portfolios.

Simply put, we are trying to bring the best capabilities and services that a $100 million investor might expect from a large private banker, and provide those capabilities to the $1 million to $25 million investor. Our biggest wins have always come on the heels of the biggest trust.

My father started the firm in 1965, so we've been around for a long time. At that time, I was busy getting an MBA and worked for 10 years with a company that built derivatives trading systems for major international banks. When that company was sold, I came over to Warren Financial. In about 2006, we decided to start really growing the company, hired more people, and expanded quickly.

TWST: Tell us about your guiding strategies and exemplify with some of your best wins.

Mr. Warren: For investors that prefer a nimble firm that has access to the best managers and the best deals, Warren Financial creates opportunities through our private funds and unique proprietary alternatives.

When you're dealing with people's wealth, it's really all about trust. That's not a surprise. If you look at any other big firm like Schwab or Fidelity and survey investors about, "Why did you pick the guy that you're working with?" — it's always trust, number-one. And that's where the big wins come from, as you earn people's trust. When you win people's trust, and provide comprehensive financial planning, access to unique alternatives and funds, we often find that clients refer their friends and also bring more money for us to manage.

For example, pre-IPO unicorn investments are not a new thing, and probably most firms would offer such a capability, but the individual advisers often fail to deliver that capability to the customer. But when investors come to Warren Financial, we make sure to not just promise access and leading opportunities, but also deliver those capabilities to each high net worth customer.

TWST: Can you walk us through particular moves, or an investment strategy you employed that yielded best results?

Mr. Warren: Sure. I think 2020 was the ultimate example of a big winner of a year. It was really all about the preparation that we had going into last year. We did very well in 2020, nearly doubling the indexes.

We started the Warren Safer-Equity Fund in 2010, on the heels of the 2008 recession. It's a volatility fund that trades options on VIX futures. That has been quite the area of consternation on Wall Street. There have been some epic failures in volatility funds. Our key was to have a plan that we could execute well.

When 2020 came around, and COVID happened, it wasn't all bad. This was our opportunity to prove that our plan was the right plan for trading volatility options, and for trading equity. Our fund is really all about equity, plus executing volatility options for protection. It was our opportunity to prove that we had a great strategy and a great fund. We were able to not only buy volatility options that made money as the market went down to cushion the blow, but also our strategy includes buying S&P calls. So we buy options on the way back up to enhance the returns.

It was great for us that this was a downturn followed by a quick rebound. Both of those strategies paid off big, not just one side or the other. We were buying equity during the pandemic, and we were buying options during the pandemic. And the net result at the end of the year was over a 30% rise in our fund.

We built a proprietary model called the Warren Macro VIX to hedge the market. I was comfortable constructing our own model after my years in the banking industry developing derivatives trading models. Ours is strict model, and because we authored it, we know how to follow it. Some of the funds that have failed in the volatility space, in particular, failed because the author might have been a Ph.D. in physics, but the trader didn't actually write the model.

TWST: What's your broad view of the current market? Are you bullish, or do you see overvaluation?

Mr. Warren: We see a number of things. If you look at the PE ratios of the market for the past 100 years, today, it looks a little rich. But usually after every recession, the PE ratios look a little rich, because earnings are depressed. Because this past recession was so short-lived, prices rebounded quickly. When the price rebounds before the earnings, it makes the PE ratios look expensive. So there are plenty of examples of things that appeared speculative.

However, the beauty of this market is that there have been these pullbacks in the middle of it, and we're going through one right now. This is the sixth day the S&P has been down. So we're going through a little bit of a pullback and it takes out some of the froth. That allows the "E" to start to catch up with the "P," so that the ratios line up again. We're not quite there, because we're not yet out of the recession.

Highlights

Randy Warren discusses 2020 winners and upcoming opportunities. He says that the Warren Safer-Equity Fund — a volatility fund that trades options on VIX futures — performed very well in 2020 as the market downturn was followed by a quick rebound. Mr. Warren is optimistic about the current market and the next few years. He believes that community banks and smaller banks are going to benefit from rising interest rates, which will help them on their net interest margin, and that they are likely acquisition targets for the big banks. He also favors fintech and certain travel stocks that haven't yet rebounded.

Companies discussed: GameStop Corp. (NYSE:GME); Airbnb (NASDAQ:ABNB); DraftKings (NASDAQ:DKNG); Paypal Holdings (NASDAQ:PYPL); Square (NYSE:SQ); Intuitive Surgical (NASDAQ:ISRG); Home Depot (NYSE:HD); Lowe's Companies (NYSE:LOW); Restoration Hardware Holdings (NYSE:RH); Floor & Decor Holdings (NYSE:FND); Lennar Corporation (NYSE:LEN); Booking Holdings (NASDAQ:BKNG); TripAdvisor (NASDAQ:TRIP); Expedia Group (NASDAQ:EXPE); Southwest Airlines Co. (NYSE:LUV); CSX Corporation (NASDAQ:CSX); Kansas City Southern (NYSE:KSU); KeyCorp. (NYSE:KEY); Annovis Bio (NYSEAMERICAN:ANVS); Microsoft Corporation (NASDAQ:MSFT); Tesla (NASDAQ:TSLA); Apple (NASDAQ:AAPL); Alphabet (NASDAQ:GOOG); Amazon.com (NASDAQ:AMZN); Facebook (NASDAQ:FB) and Novavax (NASDAQ:NVAX).

I think all of the spending and Fed-accommodated purchases will contribute to a good 2021. We're optimistic this year, and probably for several more years. Again, if the "E" can't catch up to the "P," if the earnings don't grow to match the valuations, I anticipate a reckoning down the road, say in 2028 or 2030. I believe these next few years are going to be the Roaring Twenties.

TWST: So you see positives like the stimulus to have positive impacts on a rising market. Do you see any negatives, or headwinds on the horizon?

Mr. Warren: There's no question that the stimulus is going to be a very positive impact on the market. What we've already seen, the **Robinhood** phenomenon and **GameStop** (NYSE:GME), and all sorts of speculations are happening because the government is handing out checks. People have nowhere to go and nowhere to spend.

The American consumer is flush with cash, especially if they're still working. So this is just extra money that's being sent out. And they're putting the money to work in the market. They're learning some hard lessons, which are that markets don't always go in one direction. When you bet on something speculative, you can make money, and you can also get burned. People learned this lesson way back in the 1300s, with the tulip bulbs in Amsterdam. They've been learning it every 30 or 40 years ever since. We're not exactly a species that learns well from each other over time.

TWST: Are there any particular sectors or stocks that you see as most speculative? Where do you see more risk, as opposed to reward?

Mr. Warren: It looks like a lot of these SPACs — special purpose acquisition corporations — that have come out in the past eight or nine months are where a lot of speculation has happened. In that area, as opposed to going IPO, some of these companies have done exceptionally well in a very short amount of time, with very little revenue, and very little earnings. Some of the companies that have come public through a SPAC are big companies and have done really well. Think of names like **Airbnb** (NASDAQ:ABNB) and **DraftKings** (NASDAQ:DKNG).

TWST: Can you share some favorite names that you like for more risk-averse investors?

Mr. Warren: Almost anything in the FinTech space. So, for example, **PayPal** (NASDAQ:PYPL) and **Square** (NYSE:SQ) have been great for our fund and for our investors. We like some other names like **Intuitive Surgical** (NASDAQ:ISRG) and **Home Depot** (NYSE:HD). And the home market has done quite well during COVID.

We've always liked **Home Depot**. We increased our position in that stock because we noticed something very early on in the pandemic. When COVID took hold we noticed that, while people are staying at home, what are they going to do? They're going to improve their home situation. They went out to **Home Depot** and started doing projects, whether it was a painting project, or improving the kitchen. And so **Home Depot** and **Lowe's** (NYSE:LOW) were the beneficiaries of that.

Later, came **Restoration Hardware** (NYSE:RH) and **Floor & Decor** (NYSE:FND). And then as people started to flee the cities, the home builders, like **Lennar** (NYSE:LEN), have been just fantastic. All of those have been working well this past year. They'll continue to work, and there will be some new ones as well.

TWST: Tell us about the new ideas — names that you have your eye on?

Mr. Warren: Throughout the past year, we keep looking at sectors to see what's going to rebound next. When the pandemic hit, technology got hit the least and it bounced back first. What's next? Then the home sector came roaring back, and other sectors did very well. FinTech, for example.

What's the next sector? Right now, the regional banks are roaring, and they've really started to come back. Good times are ahead for the regional banking sector. With interest rates starting to rise a little, that's going to dramatically help them on their net interest margin, and they're going to make a lot more money going forward than they did in the past.

A little bit more speculative area, where you'd be jumping in early because the prices are still depressed, are **Priceline** (NASDAQ:BKNG), **TripAdvisor** (NASDAQ:TRIP), and **Expedia** (NASDAQ:EXPE). **Priceline** in particular has been thrown on the scrap heap of COVID. The stock price, earnings and revenue are all down dramatically. But once more people get their vaccine, everybody will want to travel. Whether it's seeing relatives in another state or country, people are anxious to get out there and start traveling. So some of those names can do really well going into this coming year.

We like the financials and the travel stocks. The airlines have already been bid up a little, in anticipation. But **Southwest Airlines** (NYSE:LUV) is making a fundamental step by moving into the Chicago area, and expanding, so you've always got to like that company. It's almost like the best house in a bad neighborhood. It's a bad neighborhood, but still the best house.

TWST: And what about taking a train ride? Are there any train stocks that you like?

Mr. Warren: Well, that's an interesting sector, too. **CSX** (NASDAQ:CSX) has always been a favorite of ours. **Kansas City Southern** (NYSE:KSU) is a nice company, as well. I would favor those two and avoid others. They didn't get hit as hard as some of the others. They were able to continue to make money by hauling oil and coal and all sorts of other things. So I think they're going to do fine, but they're probably not tremendously undervalued right now. So they're a nice "hold." I just probably wouldn't buy more right now.

TWST: Can you name one or two of the top regional banks that you recommend?

Mr. Warren: Our favorite is **KeyBank** (NYSE:KEY). **KeyBank** looks fantastic. It's a big regional. They've got great management, and they do a really good job. They have done a great job with PPP for their customers. Also, the community banks and smaller banks are going to benefit from rising rates, and they're certainly going to be acquisition targets for the big banks. We're looking forward to maybe seeing some 2021 acquisitions in the community bank sector, as the bigger ones start gobbling up the smaller ones.

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1-Year Daily Chart of KeyCorp.

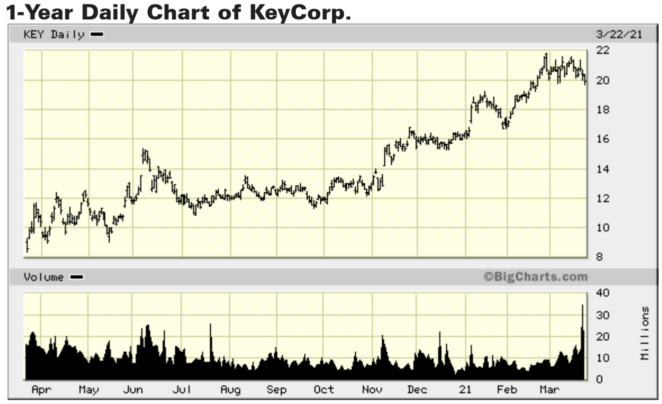

Chart provided by www.BigCharts.com

TWST: Let's take a step back for a moment. In 2010, Warren Financial launched a volatility fund. Have you launched any other funds since then, or are you planning to?

Mr. Warren: We have not. We actually launched two funds in 2010. We launched an angel fund and invested in startups, and we launched the Warren Safer-Equity Fund. We've since shut down the angel fund. It's come to its natural conclusion. I'm proud to say we made money for our clients in that fund, in a very difficult sector, investing in startups.

One such company is **Annovis Bio** (NYSEAMERICAN:ANVS), which was private when we invested in it a decade ago. It's a publicly traded stock now, and since it still has a long way to go to get through Phase III FDA approvals; it's a work in progress. Investors have benefited, so the investment has been a big win for us.

TWST: Can you tell us anything about your own personal portfolios? Stocks you hold, stocks that you've sold, and any you are looking to buy?

Mr. Warren: We have an investment committee, and it's a small group of people. We sort through the fundamentals and the technicals of many hundreds of stocks, and we try to pick the best of the best, and we put them on our "conviction buy" list. Then we give that conviction buy list to our portfolio managers, and they build custom portfolios for high-net worth clients. They may or may not like **Microsoft** (NASDAQ:MSFT) or **Home Depot** right now, but those names are on the conviction buy list because the fundamentals are so strong.

In my own personal portfolio, you'll find a lot of those conviction buy list names. These are the companies that you want to own. That list is constantly changing, but it doesn't change quickly because company fundamentals don't change quickly.

So, stocks like **TripAdvisor** or **Booking.com/Priceline**, aren't on our list yet, but they're in consideration to become part of the conviction buy list. So we might dabble a little bit in **TripAdvisor** or **Booking.com/Priceline**, but they're not yet on our list. However, as we start to make money and the thesis starts to come true, we say, "OK, this is a thesis that's going to take hold, and it's going to endure. So let's buy more. Let's ratchet up the holdings that we have in this particular name." And it becomes part of the actual conviction buy list.

TWST: As you look into the rest of 2021, where do you see risk to the market, or any particular sectors?

Mr. Warren: There's always risk that comes from Congress. The democrats have control, and they want to spend $2 trillion on top of the $3 or $4 trillion that's already been spent. That'll be good for the market. But the Republicans don't necessarily want to spend that. So there's risk. The Republicans might filibuster in the Senate, and who knows what they're going to do. They could delay things, and the market could have a pullback, because maybe the stimulus package won't get passed. There's always so much conflicting news coming out of Washington, D.C. So you have to be careful, because it's an area of risk, for sure. But I think it will pass, there will be another stimulus package, and it will go well for the market.

TWST: Probably most millennials can't invest with you. Do have any advice for them, or any particular stocks that would be good for a millennial to start with?

Mr. Warren: Definitely. And we actually do have a number of millennials with whom we work. The children of our clients, the grandchildren of our clients, that sort of thing. Their friends, their families, their brothers and sisters, they're just starting out, just as you described, and they're wanting to invest.

I think that until your portfolio gets to be at least say, $50,000 or something like that, you want to be mostly in ETFs. For example, if you have $20,000, and you're just getting into the market for the first time, you don't want to take your $20,000 and put it all on **Tesla** (NASDAQ:TSLA), just because **Tesla** has done well in the past five years. That's not a smart thing to do.

You probably want to buy the NASDAQ, the QQQ. That's going to be more diversified. You're still going to get some **Tesla** in there, but you're also going to get some **Apple** (NASDAQ:AAPL), **Google** (NASDAQ:GOOG), **Amazon** (NASDAQ:AMZN), and **Facebook** (NASDAQ:FB), and so forth. You're going to get a broad swath of a lot of great companies. That's a great place to start.

Then as the portfolio grows, as the numbers get bigger and bigger, you can start to spread out. Maybe a couple of shares of this company like **Amazon**, or a couple of shares of **Home Depot**, or a couple of shares of **Novavax** (NASDAQ:NVAX). There are so many great companies to buy, like **PayPal** and **Square**, for example.

Think of the companies that are changing the world, changing the face of finance, changing the face of payments, the self-driving cars, etc. There are so many areas to get into, which are exciting and new. But you don't want to have the bulk of your money there. Portfolio-building is a combination of art and a science. The art part of it is the percentage. If you're way heavy overweight stock, and you're way underweight your ETFs, you've got it backwards, especially when you're starting out.

TWST: To conclude, is there anything else you'd like investors to know about Warren Financial? Any topics we missed?

Mr. Warren: I mentioned we have the Warren Safer-Equity Fund and it trades volatility options. I mentioned that there's been a lot of funds that have gone out of business in that particular sector. It's been a difficult sector to invest in, but I feel good in the sense that we got it right. And that was a big win for us. It was unfortunate for those investors who went with bigger firms that got it wrong, but I'm glad our investors were able to see the benefits that volatility investing can create.

TWST: Thank you. (VSB)

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