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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Long-term Investment Strategy Uses Short Selling to Augment Holdings

JOSEPH PARNES is President of Technomart Investment Advisors, which he founded in 1979. He directs research, analysis and corporate strategy. He has a focus on growth companies and on short selling. He is also Executive Editor of the Shortex Market Letter, a tri-weekly publication providing market insight and recommendations on seven long and seven short positions. Mr. Parnes received a B.S. degree in engineering from the University of Louisiana at Lafayette, as well as a Ph.D. in economics from the Society Francaise des etudes Parapsi Cologiques in Paris.

SECTOR — GENERAL INVESTING

TWST: Could you tell me about Technomart?

Mr. Parnes: Yes. Technomart Investment Advisors is a registered RIA, established in 1979 as a boutique investment advisory focused on customized portfolios centered on long-term growth.

TWST: What are some of its goals?

Mr. Parnes: We provide independent and custom portfolio management. Our aim is to increase client assets within a time frame of one to five years, with the hope of double- or triple-digit returns.

TWST: Do you have an overarching investment philosophy at the firm?

Mr. Parnes: Our philosophy is based on selecting specific growth companies and very little trading. A strong emphasis toward long-term holdings augmented with the use of short selling for long-term positions. Simply put, it is a method of utilizing shorts to both provide a hedge and to help in the accumulation of long positions within the portfolio. More details on this concept can be found in my recent book, “Short Selling for the Long Term,” published by Wiley in 2020.

TWST: Do your clients include both retail investors and institutional investors?

Mr. Parnes: Yes. We provide separately managed accounts for both individuals and institutions.

TWST: What makes your approach different from many of the other firms out there?

Mr. Parnes: Our firm and our strategy is based on a contrarian approach. It is in contrast with what is often projected by mainstream advisory firms and financial media. This is not to suggest that we do not consider other forms of information in reaching our determinations for selections. Rather, we have found our niche by frequently going against a herd mentality.

TWST: Could you explain about short selling for the long term, which you discuss in the book?

Mr. Parnes: The book sets forth more detail on the investment strategies pursued by Technomart. The goal is to increase and protect assets while addressing the short-term volatility in the market. Also, allocating up to 40% into growth companies, evidenced by their capacity to provide future high growth and being able to handle market hiccups or any short-term sell-off. Up to 40% can be placed into large-cap companies with known and continued dividends that do not have significant debt. The remaining amount of up to 20% is then positioned in shorts for the long term.

What I mean by that is selecting companies that are large and that are free of being taken over, merged or being squeezed out in the market. The proceeds gained from short selling can be used to reinforce the aforementioned large-cap and or growth companies. The length of time held by these shorts is based on making money on the long side, which provides enough money to pay for borrowing from the brokerage firms and any interest or short fees. These shorts will be sold and or rotated from six months to three years.

TWST: What was the experience of the firm during the pandemic?

Mr. Parnes: In March of 2020, like all firms and businesses that witnessed the massive drop in the market, there was extreme trepidation. However, I believe we benefited from our application of utilizing shorts and our decisive action to reconstruct our clients’ holdings. As a company, there was certainly pressure to downsize. However, by the end of the summer of 2020 we found ourselves in a position of expansion and relocated our Maryland location to the World Trade Center in Baltimore.

Simply put, our firm’s growth is intrinsically correlated with our clients' financial wellbeing. Looking at it from this perspective, I believe it provides a consistent watermark to measure our abilities.

TWST: Did you want to highlight a company that you find interesting now?

Mr. Parnes: I think providing some of the companies that we like to incorporate in our portfolios may provide a better insight into what we look for. They are mostly large-cap, high-value growth securities such as FAANGM — **Facebook** (NASDAQ:FB), **Amazon** (NASDAQ:AMZN), **Apple** (NASDAQ:AAPL), **Netflix** (NASDAQ:NFLX), **Alphabet** (NASDAQ:GOOG), and **Microsoft** (NASDAQ:MSFT). Of course, high-caliber technology companies will benefit from the pandemic and its aftereffects. This includes the likes of **Advanced Micro Devices** (NASDAQ:AMD), **Nvidia** (NASDAQ:NVDA) and biomedical companies such as **Moderna** (NASDAQ:MRNA) and **Pfizer** (NYSE:PFE).

TWST: What's the outlook for these technology companies? Some of those stocks are priced pretty high. Do you think they're going to continue to be in demand and do well?

Mr. Parnes: We view these companies with the same analysis as any sectors within the market by looking at their fundamental earning potential. Therefore, in our judgment, their price/earnings ratio relative to their earnings power are really cheap in comparison to average stocks. Now, whether they will continue? Yes. Because I think the pandemic has led to the acceleration of a new economy and tech companies continue to benefit. If their p/e ratio falls below our vision that we set for those companies, we of course dispose of them, and many times we may go short for the long term.

TWST: Why is it important sometimes to be contrary from some of the other investment firms out there?

Mr. Parnes: Not everything will end up being contrarian. However, in my tenure of experience of almost 30 years, many other firms often behave like sheep. In other words, the influence of groupthink will often lead people to base their selections on what often turn out as quick market trends. If every report or trend is followed, then no one should either lose money or have weak returns, which is not the case.

This may work for those whose aim is to make money short term and trade constantly, notwithstanding commission fees or hidden fees on sell and buy spreads. For example, the trend earlier this year in **GameStop** (NYSE:GME) and **AMC** (NYSE:AMC), which was reinforced from social media, brokerage apps, traditional media and firms. Here the hype was about these companies' short-term options calls and puts. In the end I believe this short-sighted mentality benefits the few but never the whole.

In the book, I outlined that the money being made in the long run cannot be duplicated with short-term trading. And that's probably one reason that we have survived and have managed to bring our clients in excess over the returns.

TWST: What about those people who are nearing retirement or in retirement years? Should they keep on looking to make investments, maybe even contrarian investments? Or should they put a lot of money in fixed income?

Mr. Parnes: Well, most of those accounts that you just indicated are either in IRAs or in 401(k)s or deferred compensations. You cannot short. So therefore, when we get those accounts, we just increase the number of their positions.

Let's assume $1 million as a base. We try to divide the number of $1 million into positions of no more than 18 to 25 selections in aggregates of $80,000 to $90,000 on each position and suggest increasing to 30. Then the remaining positions can be put it into fixed income, mostly high-caliber companies, and bonds that have been depreciated enormously since the beginning of the pandemic.

TWST: And do you think investors and the companies that you're investing in are concerned about the risk for inflation?

Mr. Parnes: The risk of inflation is events driven. Markets

Highlights

Joseph Parnes discusses his investment philosophy, which he describes as contrarian. He says he places a strong emphasis on long-term holdings augmented with the use of short selling for long-term positions, with the goal of increasing and protecting assets while addressing the short-term volatility in the market. He says this method of utilizing shorts both provides a hedge and helps in the accumulation of long positions within the portfolio. Mr. Parnes says their portfolios hold mostly large-cap, high-value growth securities such as Facebook, Amazon, Apple, Netflix, Alphabet and Microsoft. He believes these companies' price/earnings ratio relative to their earnings power is cheap in comparison to average stocks and that they will continue to do well because the pandemic has led to the acceleration of a new economy and that tech companies will continue to benefit.

Companies discussed: Facebook (NASDAQ:FB); Amazon.com (NASDAQ:AMZN); Apple (NASDAQ:AAPL); Netflix (NASDAQ:NFLX); Alphabet (NASDAQ:GOOG); Microsoft Corporation (NASDAQ:MSFT); Advanced Micro Devices (NASDAQ:AMD); NVIDIA Corporation (NASDAQ:NVDA); Moderna (NASDAQ:MRNA); Pfizer (NYSE:PFE); GameStop Corp. (NYSE:GME) and AMC Entertainment Holdings (NYSE:AMC).

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always face such fundamental problems. The Federal Reserve indicates that inflation is transitory. But the positions that we have in our accounts actually should enjoy or have some increases in their assets in the form of the dividend payout by those companies because of inflation expectations.

1-Year Daily Chart of Netflix Inc.

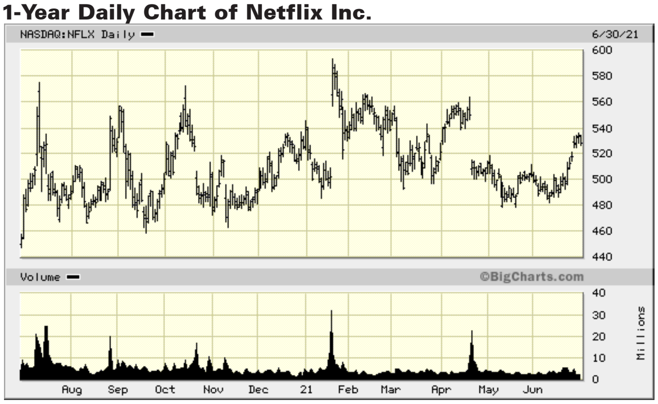

Chart provided by www.BigCharts.com

TWST: Is the labor shortage something that's impacting certain companies right now?

Mr. Parnes: Absolutely. Because when you have a shortage of labor, it formulates into higher costs, and the higher costs will eventually affect the companies that are not able to secure themselves for that purpose.

TWST: When you speak with clients, any concerns that they're sharing with you about the future?

Mr. Parnes: Of course. There comes a time that history repeats itself. They may have experienced the 2008 era. But I will advise every one of them that their positions will be set to a point that we'll be able to go through any dilemma.

TWST: Do you see clients having enough patience to hold onto investments for the longer run? Or at least the intermediate run? Rather than people wanting to make a quick dollar in a couple of months?

Mr. Parnes: We explain to clients at the beginning what our philosophy is. And if they intend to have a short-term appetite, we refuse, or we tell them that this is not the firm for their purpose.

"The risk of inflation is events driven. Markets always face such fundamental problems. The Federal Reserve indicates that inflation is transitory. But the positions that we have in our accounts actually should enjoy or have some increases in their assets in the form of the dividend payout by those companies because of inflation expectations."

1-Year Daily Chart of NVIDIA Corporation

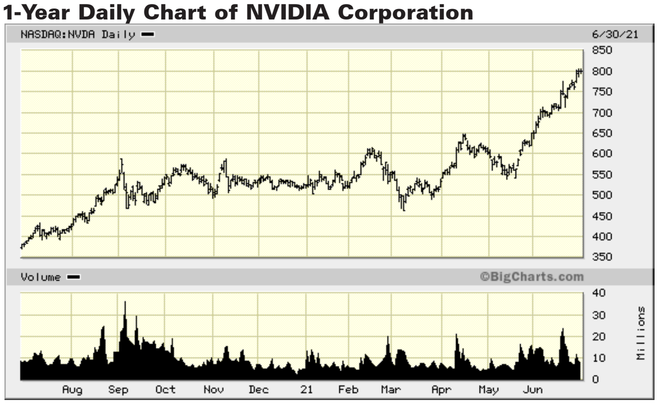

Chart provided by www.BigCharts.com

TWST: What about interest rates and where they are now? Is there a concern that they're just not high enough, especially for those people who are in retirement years?

Mr. Parnes: Eventually, there will be some increases coming. The market will have to adjust itself into a high interest rate environment. In the short term, you are going to have this kind of hiccup and that is not a concern of ours and should not deeply affect those in retirement. We make sure that the portfolios will contain the companies that can increase their assets' value regardless of these events-driven problems, such as interest rates or inflation. Right now, another problem is shortages of labor.

TWST: Do you see some people wanting to make a quick buck from what they see on the TV news?

Mr. Parnes: Of course. We get a lot of calls. They listen to interpretations of so-called investment gurus. I'm going to give an example. About last month, the highlights were on Bitcoin and cryptocurrencies. And we advise them that things in that line are good for high-frequency traders, institutional and hedge funds who have the capability of equipment in hand and the number of traders to make excessive trading in nanoseconds. Our firm does not do that. And mostly their investments would be in jeopardy if they're trying to zero in on quick money.

TWST: Do you see that same risky behavior by some of the millennials who are new to the stock market and think they might be able to do day trading or some other such thing and come up with quick returns?

Mr. Parnes: Absolutely. We stay away from the appetite for making quick money. In our experience, those are all indicative of today's market. And we're going to have this kind of volatility in one form or another. And even though the SEC and other regulatory agencies are trying to do something, I leave that to the traders, to the high-frequency traders and others. We stay away and focus on the long term and slow movements of the portfolios' positions.

TWST: Do you see that some of the millennials are looking for the more traditional-type investments that grow over the long term? Will they start to take part in more traditional investments?

Mr. Parnes: Today's new entrants are quite different than the investors of, let's say, 20 years ago, or the investors before the inception of the internet. But their goals are similar.

Many millennials are more information savvy but are working and starting families. We may encourage them to take positions which are heavily invested in the long term while using the information of the internet and apps as a way to better understand the long-term benefits. But generally, our clients are well positioned, and they seem to go along with our advice and close their eyes to the quick and fast lure of investments as we see today.

TWST: Do you encourage a lot of diversity within the portfolio investments? Different types of companies, different sectors? Or is it more about the individual company?

Mr. Parnes: In our portfolio positions, diversity is important. Overdiversification and underdiversification can lead to disaster. In today's market, diversity is heavily influenced by the individual company and its relative sector. But I would say, perhaps 80% of positions are U.S. securities. If they have appetite for foreign countries, we advise only the ADR — American Depository Receipts. We try to encourage to invest in U.S. corporations.

TWST: Anything else you'd care to bring up?

Mr. Parnes: I just try to encourage clients to understand that whatever happens to the market, eventually, it will adjust itself. I zero in on two or three very important elements. The Dow Jones Industrial Average consists of 30 companies. If you give them a forward p/e of 26, that means the averages of Dow Jones could visit 35,755.98. And, of course, the closing high has been 34,600 as of June 2. If you apply the same technique toward the S&P 500, which consists of 11 sectors, average means earnings is about $189. Multiply 23 forward p/e, it could visit 4,347 and as of closing, just touched close to 4,232.60, which was set on May 7. So understanding the technique will of course apply to the volatilities of others, like air transport, and, of course, the Russell 2000.

The major indices will fluctuate. And slowly they lead toward earnings. Earnings are the only power for the stock market to measure its benchmark.

I would say that constant concentration should be given to the long term. It is very advisable to consider short selling for the long term, as I have indicated. And not that I want to push my book, but I think it acts as a good guide. Money is made with patience, with the duration of one to five years. Short-term trading may be good at the beginning, but eventually it will come to haunt you. Churning or buying options consistently is by definition inconsistent and you will get burned.

TWST: Thank you. (ES)

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