Idea Brunch with Avram Fisher of Long Cast Advisors

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Welcome to Sunday's Idea Brunch, your interview series with great off-the-beaten-path investors. We are very excited to interview Avram Fisher!

Avram is the founder, portfolio manager, and self-described "chief curiosity officer" of Long Cast Advisors, a small-cap-focused investment manager. Over its seven-year history through 1Q23, Long Cast has returned 166%, or 14% annualized. Prior to starting Long Cast, Avram worked as a sell-side equity analyst at BMO covering Business and Industrial Services and at CSFB covering Industrial Products. Before transitioning to the finance world, he had a background as a writer, reporter and private investigator. Avram is active on Twitter @longcastadviser and shares investor letters and other commentary on his website.

Avram, thanks for doing Sunday's Idea Brunch! Can you please tell readers a little more about your background and why you decided to launch Long Cast Advisors?

Thank you for having me on and for a moment of your audience's time.

I started Long Cast with savings my wife and I earned through work, less than $1M. I never worked at a hedge fund. I had no "seed capital" or family money, just our savings and a vision to invest it in order to grow wealth. My sister and a fraternity brother were my first clients. I now manage 25 accounts totaling $7.5M in assets, including 30% personal. It's SMAs so the structure is very simple and transparent. Integrity is very important to me.

I do this because I love investing. I think it favors smart, quirky, or slightly obsessive minds, and attracts the kind of nerds and weirdos I like to hang out with. I definitely couldn't do it as a business without my wife's support.

Your background is much different than most hedge fund managers. How have your past experiences impacted you as an investor?

Prior to Long Cast Advisers, I worked for about a dozen years as a sell-side equity research analyst at BMO Capital covering Industrial Services and Business Services and before that at CSFB, as an associate, covering Industrial Products.

For an analyst with an inquisitive mind and supportive boss, the sell side is like an exploratorium. Picture a floor of 30 or so teams focused on tracking the ~15 largest companies in a variety of industries ranging from medical devices to grocery stores, proteins and toys. You can learn a lot. However, since regulations prohibit owning what you know, it's less an investing job and more an academic job. My aim was always to transition to investment management but when I left the sell side I was on the wrong side of 40 and nobody hires a 40-year-old analyst with no portfolio management experience, so I had to blaze my own path.

I took a wayward route to finance. I graduated from Johns Hopkins with a degree in creative writing. My first few jobs out of college were at a weekly newspaper, a daily newspaper and a national magazine as a fact-checker.

Then E-trade happened and I caught the investment bug. I took an accounting class at NYU, read about technical trading and CANSLIM. I read Berkshire letters and Peter Lynch. I started to re-direct my career towards finance, which lead me to working at a private investigator that hired writers and reporters for management due diligence, which still very much informs what I do today.

Between stints at the investment banks, I went to Baruch for my MBA. It's a CUNY school and inexpensive for city residents. It seemed a better choice to put my capital towards a down payment on an apartment in Brooklyn than pay private school tuition.

You have a pretty diverse portfolio — ranging from a next-generation battery company (ENVX) to a microcap payments processor (CCRD). How are you able to come up with off-the-beaten-path ideas in an industry with so much groupthink?

Every investment should be approached with a skeptical mind. In business school, I interned for a small deep value fund and the PM used to say "the first job is to say 'no.'" I still say "no" a lot, and it's especially easy when "everyone else" is piling in, for better or worse.

I like the strike zone analogy of investing, "waiting for your pitch." Looking for and identifying the right opportunity isn't about what anyone else is doing but one's own discipline to their process. I can stand at the plate however long I like and step out and call time for as long as I like. It's important to not let strikes go by but I find it's even more important to swing and not miss.

The base rate in business is not "success" so for something to grow beyond micro- or small-cap size it needs to have some rare or unusual quality or a change that is otherwise unnoticed or unrecognized by the street. And when it's unnoticed or unrecognized, you're not going to get any positive feedback from owning it and every day may feel like another kick in the head. So getting the due diligence right is essential. Most good investments start when everyone else thinks you're crazy but unfortunately, the inverse is not true; everyone else thinking you're crazy will not ensure a good investment.

Many microcaps are known for terrible governance, self-dealing, and chronic underperformance. What are some of the common red flags that lead you to pass on a microcap? Are there any common positive signs that lead to heightened interest?

Everyone's trying to sell something. I think the biggest red flag is when you come across a company where it's clear that the investor is the only end customer. Other red flags that are easy to identify are excessive management pay, excessive board pay, excessive equity dilution, excessive complexity and excessive jargon.

I like things hiding in plain sight. If there's value creation and something is changing, it interests me. Some of this can be anticipated through observations on the P&L but most often, you have to look at adjacencies.

Also, I'm not buying anything I don't understand. The framework I use is "what problem does this company solve?" That question eventually regresses to the value of the problem, the importance of the solution and the customer's alternatives. I build my cases around that.

Avram, what are some of the first things you do when researching a potential investment? What does that first hour of research look like for you? Do you do anything that few others do?

I recently wrote a blog post that included a section on how I decide what companies to meet with at an investor conference. That's my "first pass filter" and I invite your readers to check that out (For the tl:dr crowd, I use book value per share).

For things that float my fancy, the accessible sources are Q's and K's, the news and earnings releases and the proxy. Ours is a forward-looking business, but history offers clues and context on how management operates so I go back to the earliest available information. One shouldn't expect success where there hasn't been before unless something is changing.

I realize reading these K's and Q's takes more than an hour but when you have your teeth in an idea time disappears. And finally, a much-overlooked and underrated aspect of research is sleep. As my 2013 Berkshire-meeting roomie said: "Cram it all in there and see what shakes out." Sleep helps make sense of things in different contexts and often offers up new assumptions worth testing, in work as well as in life.

What are some interesting ideas on your radar now?

The company that interests me most right now is **Matrix Services** (NASDAQ: MTRX — $147 million). I own it for clients and there's capacity to add more. MTRX is an industrial contractor. They design, build and "bend metal" for gas, liquid and cryogenic storage, for electrical Transmission and Distribution (T&D) and they do outsourced mining and industrial facility management.

The income statement will cause nausea to anyone looking at it, but construction is one of the most lagging industries and today's P&L reflects work booked during COVID, when companies took anything to keep their workers busy. These projects are near completion. However, because of the way construction accounting works, losses on those projects are now destroying their P&L. But backlog is growing again. If they are booking new work at their historical margins in the high single digits, I think this could be well more than a five-year double. The balance sheet should have the capacity to support current losses until recently booked work comes online.

The current management team has been in place for over 10 years so they've been through cycles before. They don't need to be heroic for this to work, just go back to what they were doing pre-COVID. And most importantly, I think the environment offers a tailwind given the need for new infrastructure to support new energy and a deferred CAPEX cycle in traditional energy. MTRX is something of a preferred contractor to clients in these areas, and many of those clients have money and reason to spend it.

Another company I like is in food distribution. It's called **Mama Mancini** (NASDAQ: MMMB — $91 million), which makes meatballs and prepared Italian food sold directly to consumers and through grocery stores. They also recently acquired a fresh food and salad producer. What's changing is that they recently hired a very talented new CEO with a long career as a consultant at Booz Allen and in a corporate role at Mondelez. He's a first-time operator so not much history to go on but he knows what a good business should look like.

He's taking over a business that was run by a father/son founders team and I think it's likely the business has deficiencies normally seen under family/founder management so I anticipate room for improvement in working capital and operations management.

Still, there's a solid foundation to build off of. The company sells products through the deli counter, through the prepared foods aisles and in frozen food and I think there's a long-term opportunity to add more products through existing channels and solve the "one throat to choke" problem for their customers. You're paying for none of these long-term potential changes that one could assume will come from a new CEO who spent his career in the food industry. I think most likely this becomes an attractive M&A target.

What would you like Long Cast Advisors to look like 10 years from now?

When I started Long Cast, I turned all my attention toward research and analysis and learning portfolio management. Now I'm seven years in with a solid track record and I'm starting to turn my attention to the entrepreneurial side of the business and trying to grow.

The thing is, I think most successful entrepreneurs are generally optimistic and good at making quick decisions and I lean more towards the attributes of an analyst, which I practice through slow decisions and healthy skepticism. Sales is definitely not my comfort zone. I'm going to find my own way that makes sense for me, remains true to who I am, and carry the same integrity I bring to investing and portfolio management.

I am trying to solve the problem for my clients of growing their after-tax savings faster than the rate of inflation and faster than more accessible alternatives, without increasing the risk of a permanent loss of capital. It's impossible to do this without having a divergent point of view grounded in reality and reasonableness.

The way I see it, I want clients who understand my kind of idiosyncratic investing. It takes time to cultivate relationships but I'm in no rush. If I can nurture relationships today, and bring one to two clients on board per year, over time I'll be managing more capital and continuing to do the kind of investing I love. This is a business that scales well and I'm not even close to reaching my limit.

Avram, thank you for the great interview! What is the best way for readers to follow or connect with you?

My website, my quarterly letters, my ADV form, and my Twitter account are likely the most accessible ways to get more information. I live and work in South Brooklyn so always happy to invite visitors to the better borough for a walk in Prospect Park.

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