

April 1, 2021

Hello Friends,

Anything can cause the stock market to have huge volatile swings including interest rates, oil, politics, global conflict, or pandemics. However, over a longer period of years, there is a near perfect correlation between corporate profits and stock price. Those companies that can deliver strong and consistent earnings growth over many years usually have strong performing stocks. See Apple.

With that thought in mind, I have two new stocks to consider, DraftKings and Penn National Gaming. First a bit of background. Online sports betting started to find its way into society in the 1990s. But then under the George Bush Sr. administration, The Professional and Amateur Sports Act, or PASPA, was passed making it illegal for financial institutions to process payments for those operators. The industry still existed in the UK and Latin America, but it became difficult for USA residents to move money into or out of an offshore account.

In May 2018, the Supreme Court ruled that PASPA was unconstitutional and left the legality of online gambling up to each individual state. Since the Court's ruling, about two dozen states have recently legalized some sort of sports betting. Some states allow wagering at a physical location, some have limited online options, and only eleven have full mobile betting options.

2

As a result of COVID-19 related shutdowns, many states are now experiencing serious budget deficits and are seeking methods to raise tax revenues. Raising the income tax rate creates challenges as many wealthy residents are already fleeing high tax states like NY, CA and IL for low, or no tax states like FL, TX, and NV. Unlike the federal government, States are unable to simply print money. I believe that many, or perhaps all States will legalize some version of online sports betting in order to enhance their revenue stream. All wagers will include a tax.

If you have not heard of Dave Portnoy, he is an internet celebrity and founded Barstool Sports in 2003. Barstool operates an online sports blog along with a gaming App that can be easily installed on a smartphone. In January 2020, Penn National Gaming acquired a 36% stake in Barstool, so by owning Penn, you also own Portnoy. I do not know the extent of Portnoy's future celebrity status, but I believe it will be huge. He is even on the list of potential Presidential candidates for 2024 and London book makers have him at 100-1. That is not likely, but if voters are willing to make Trump President, then anyone can be elected President.

In addition to Barstool, Penn owns and/or operates 41 other casinos in 19 states. Perhaps their most valuable is the Tropicana on the desirable Four Corners in Las Vegas. This hotel/casino is a leftover from the 1960s Vegas heydays. It is only a matter of time before this property is razed and a new state of the art hotel/casino takes its place. The location is perhaps the best in all of Las Vegas.

A large amount of the ongoing stimulus money sent out by the government isn't being used to buy new shoes for the kids. A lot of this free money is being used to buy lottery tickets, bitcoin or to day trade stocks on the Robinhood App. Once sports betting has been legalized, the Barstool and DraftKings Apps will be on the iPhone right next to the bitcoin and Robinhood Apps. Many people will be spending their days sitting on the sofa and wagering on something. I expect that the TV networks will have wagering related programming on a 24/7 basis including golf, baseball, ice skating, and even the Academy Awards. The creative American business mind has no limit when pursuing profit opportunities.

If you'd like additional information on these two stocks, or any other stock, or if you'd like to schedule a portfolio review meeting, just call. Thank you.

Sincerely,



Jim Aljian

ALJIAN CAPITAL MANAGEMENT

3550 Round Barn Blvd., Suite 208 / Santa Rosa, CA 95403 / 707.230.2158 tel / 707.230.2294 fax / aljiancapital.com