Red lines, Accounting Gimmicks and Management Gloss: Why You Need to Understand Balance Sheets to Avoid Portfolio Disasters (With Steve Clapham, Founder of Behind the Balance Sheet)

Steve Clapham
The telltale signal in Wirecard was very obvious. It started off at a billion euros in cash, and it raised a €500 million eurobond and a €750 million eurobond. And when it went bust, it had 3 billion in cash in the balance sheet. And you'd ask, why would it need that money? There was one reason it needed the money. It was that the cash wasn't real.

Simon Brewer
Welcome to the Money Maze Podcast. I'm Simon Brewer, and Will Campion and I have created this show to explore and unravel some of the mysteries surrounding the investment business. You can keep up to date by visiting moneymazepodcast.com, and please sign up to our newsletter to ensure you won't miss a release. If you enjoy this show, please subscribe and we'd love you to tell a friend or colleague about it. Thank you for listening. For all the narratives around investing and making money, those who've survived the investment cycles for decades and earned above average returns have typically adhered to sound disciplines, valuing companies correctly, not taking shortcuts, not being swayed by management ebullience. That means digging into the financial statements and knowing what you're looking for, especially red flags. It doesn't sound glamorous or sexy, but making money typically isn't. So in this episode, we've invited a seasoned analyst, investor, author, and podcast host to talk about these skills. So Steve Clapham from Behind the Balance Sheet, welcome to the Money Maze Podcast.

Steve Clapham
Well, thank you for having me. I'm very excited to talk to you.

Simon Brewer
Steve, most people don't dream of becoming an unforgiving examiner of balance sheets and income statements and a desire to sift the good from the bad. Where did this begin? Is it a product of a Calvinist Scottish upbringing?

Steve Clapham
No, sadly not. It was completely by accident. My parents, they wanted nothing more than all their children to have a professional background and to have a profession because they perceived that was security. Sadly, none of their four children managed that. But I did train as an accountant, and it was actually an incredibly good discipline. So when I ended up in the City, I knew what I was doing partly. I knew nothing about valuation of course, but at least I could read a balance sheet, and that always played to my strengths.

Simon Brewer
But accounting, lots of people we know make that transition from accounting to the City. What was it that particularly was the magnet?

Steve Clapham
It was a complete accident actually. I'd interviewed for a really high job in one of the UK's largest companies. So I was interviewed by the CFO. I think it was number 5 or 10 in the FTSE 100 at the time. I got the job, and I was all

excited, and then he called me up and he said, 'Steve, just one problem here because we just realised personnel told us that you're too young to be this great. So don't worry, you're going to be doing exactly the same job, but you'll have a slightly lower salary. But we'll put it up next year and it'll be fine.' And I said, 'Hang on a second. I don't think I want to come and work for a company where your age determines your progression. I want to work for a company where your performance determines it.' I told them I didn't want the job, but I wasn't really enjoying the job I was doing. So I thought I better find something else. Somebody said to me, why don't you go in the City? They introduced me to someone who would help me understand how the City works. I had no idea. And they said, 'Oh, you look like you know what you're doing. Why don't you come work for us?' When literally, it wasn't a job interview, it was simply a meeting to understand how the City worked and what sort of role. And they said, 'Why don't you become an analyst?' So I said, sure.

Simon Brewer
There you go. And of course, you've had a very successful career working with a number of financial institutions and clearly teaching and honing your skills and practicing them as an investor most importantly. We're going to talk about this whole issue of financial literacy. But if I can just ask you to summarise why you started your current business Behind the Balance Sheet. How did you articulate your mission?

Steve Clapham
The honest answer is I felt I was too old to get a job as a hedge fund analyst, because the average hedge fund manager is 42, and as you know, I'm quite a bit older. And it just seemed it was the time to make a transition. I didn't really know what I could do because I've got no skill. I can do one thing quite well, but nothing else. So it had to be something around investing. And somebody came up with the bright idea, why don't you start a training business? So I started off actually doing one-to-one coaching, which I still do a little bit of, and it's really good fun. I really enjoy it because you're working with young people and helping them and watching them progress. But then Russell Napier, the famous financial historian, called me up and he said Stewart Investors were looking for somebody to build them a forensic accounting course. He said, 'Why don't you do it?' And then I said, 'Well, I'm not sure that I could.' And he said, 'Well, have a chat with them.' And they said, 'Well, why don't you go off and try this?' I went off to the British Library for about six weeks and I studied a whole load of past frauds and I completely blew my budget, because obviously, I had a limited amount of time, but I found it so interesting. And I've been doing that forensic accounting course now for over five yours and something like 600 people have taken that course. It's been great fun because you're helping people, and that's really, really enjoyable and really rewarding.

Simon Brewer
Back to financial literacy, because I was talking to Stephen Zimmerman a couple of weeks ago, and for those who don't know, he and Carol Galley grew and managed Mercury Asset Management into one of the most successful European investment management groups eventually acquired by Merrill. And he pointed out that when you joined Mercury as a portfolio manager, you had a two-year compulsory training program, a bit like financial national service. And he asked the question which I'm now going to pose to you is that, can you get that today?

Steve Clapham
Well, I think most people outsource it to the CFA, and I think that's very, very dangerous. Normally, what I do is I go in and train very experienced people. So people with 5 or 10 or even more experience. I've trained several people that manage $10 billion portfolios because I'm doing a very specialist thing. But more recently, I've been doing more with younger people. So we've been doing just today, I was training a couple of people who have got two, three years experience who joined the hedge fund like graduate trainees but they've got a bit more experience. And the interesting thing is how little they know. It's quite frightening. These are not daft. They're really smart, really bright, really intelligent people. I had exactly the same thing last week. I trained four people

with between two and three years experience, and what they don't know is quite scary. One of these people had done level two of the CFA, so she's done two years of studying the CFA and there are still huge gaps in the financial knowledge. And it amazes me. What other profession has no formal training program? I know we've got the CFA, but I don't think the CFA really equips you to be a financial analyst and really equips you to understand the financial statements, which is shocking.

Simon Brewer
It is such an interesting conversation because I remember vividly at Morgan Stanley, they liked to hire MBAs. Well, I wasn't one. And they liked to then towards the latter stages hire CFAs, the Chartered Financial Analysts, because it became this accreditation, it was very hard to get, and in some way was emblematic of your superior skill set. So let's just pause on that CFA. What does it give you in your opinion?

Steve Clapham
Well, I think the CFA shows that you've got the commitment to actually deliver and actually get through the exams. I remember one firm, I was for some reason asked to look after three people who were doing the CFA exam and sit down with them once a week and help and answer their questions, and I was horrified because they were in tears. That was just the boys. They really were. They found it a terrible struggle, it was a terrible commitment, and you've got to be really, really dedicated to get through the exams. But what good is that? It's useful in that you can demonstrate that you've got the commitment to see something through, but I don't believe that it's really a genuine financial analysis qualification in the way that a modern-day analyst needs to be able to cope with really quite complex accounting often for very many of the big quota companies. Accounting is pretty hard. The CFA doesn't equip you with that. I don't know why people haven't come up with something better. Maybe it's just lethargy. The CFA I think could do a lot more to develop that qualification and make it more intensive. But maybe it's just too difficult. It's a difficult qualification to get and maybe they don't want to make it any more difficult. I don't really know.

Simon Brewer
But if we reduced it in its essence, is that whilst it's regarded, revered, it's emblematic of extremely serious hard work. I have a nephew who has it and know how hard he worked to go through the whole three stages. And yet, what you're saying, so I'd like you to express it, is that if you put Apple's report and accounts in front of somebody typically with a CFA, where would they hit the roadblock?

Steve Clapham
They'd hit the roadblock probably in the cash flow statement, and I've done this. I've done exactly that. Look, they get 70% of the way there I'm sure without any problem, and they understand the theory extremely well. But as you know, Simon, the theory in investing, it really doesn't help you that much. So I've just this afternoon been going through my valuation content with these people who've got two years experience, and the first section of the valuation is about the theory. And I said, you know what, we don't need to do this because you've done it at university, it's not actually going to help you. The capital asset pricing model, all these issues around the application of beta. Warren Buffett expressed it as ever better than I ever could. If you've got a stock that has a huge drop in share price, as volatility goes up, its beta goes up, and therefore, it appears to be more expensive and it appears to be riskier, but nothing could be less risky than a stock that's fallen by 30 or 40%. So the irony is that the beta is taking you to exactly the wrong result, exactly the wrong answer. And if you're going to operate practically in stock markets, you need to have a practical framework. You need a practical framework for valuation, you need to have a practical framework for accounting. And the CFA I think is excellent at the theory, but I don't think it helps people as much as it could in the practical side of it.

Simon Brewer

So let's talk, and I know you've come today from helping analysts at a very well-respected hedge fund, and that's one of your great strengths is that there aren't many of you with that experience and insight and expertise. I certainly could have done with that course. I could do with it now. However, let's just talk about the sell side and the buy side. So traditionally, the sell side, the UBSs, the Redburns, the Bernsteins, conducted in detail research and you paid or you took their research, and then you have the buy side, the likes of the investment managers Fidelity, Wellington, and Schroders. So you have research being conducted on both sides of the cap. Has the power and the quality shifted away from the sell side and towards the buy side?

Steve Clapham
Absolutely. All three of those names you mentioned are clients of mine, and the people they've got are fantastic. They really are high quality. In our day, you got paid more on the sell side than you did on the buy side, and therefore, you attracted a different calibre of person. Today, the buy side is much better paid than the sell side, and the sell side has been incredibly juniorised. Just phenomenal. When I started in the City, there was a guy called Ron Baron. He was the number one gas analyst in the US. He followed 16 stocks. Do you know how many stocks he follows today? He's at the same firm. So the firm that he was with was taken over by UBS. I don't know if he's still working, but I saw him. I had lunch with him in New York five or six years ago. I asked him, 'Ron, how many stocks do you follow?' He said 96. Now, he has a team of really capable analysts and associates helping him and he's obviously a lot more experienced than he was all that time ago. But the fact is that the sell side role has been juniorised, and MiFID II has been a massive culprit in this. Now, you can argue about the attractions or otherwise of MiFID II, but the impact it's had is that there's less money to pay for sell-side research, and therefore, there's less money to pay the analysts. That's what it comes down to. There's fewer analysts and they're less well-paid. It was encapsulated very well by a friend of mine who was at a time the head of research at a bulge bracket firm. He said, 'You know what happens, Steve, is my best analysts get poached by the big hedge funds. They come in and they're given their notice and I know that I can't keep them because I just don't have the budget to keep them.' And I go, 'Oh, dear, what am I going to do now because I've lost that skill set? I look around and I look at their junior and I think, 'Oh, yeah, okay.' So I put the junior in the seat and I know I've got that saving in my budget. The problem is the budget every year, it goes down, and that's the problem.

Simon Brewer
Got it. Now, this is particularly important, is it not, because we've had the tailwind of super cheap money, interest rates have risen. There is a day of reckoning, some would argue, that is upon us and unfolding. So perhaps, and I don't want to answer your question, it has not been as important in the last 20 years to be able to do that forensic accounting.

Steve Clapham
Well, certainly in the last 10 years, it hasn't mattered at all. I was laughing when I first started doing all this stuff, I was interviewed by Real Vision, and they were asking me, 'Well, how important is all this?' This was 2019. I said, 'Well, you don't want to live listen to me because the last thing I'll do is tell you to buy a Tesla or one of these racy stocks because I'm worried about the balance sheet, I'm worried about the accounting, I'm worried about the capital expenditure.' And none of that matters right now because that's not what's driving markets. But I would contend that we're entering a different phase and we've had interest rates go up a lot. Whether they stay where they are, whether they come back, interest is now a factor again, and I think that balance sheets are going to be even more important, particularly as you get the running off of the maturity. So companies have been very effective at terming out their debt very cheaply. We were talking about Apple. I was very surprised Apple actually raised their 0% bond. But that bond isn't going to last forever, and when it's replaced, they're going to have to pay interest on it. And this is going to be a much more important feature of analysis going forward. If you think that we're in an inflationary environment and in the past, inflation has tended to erode company's margins, then you've got a double whammy because you've got a lower operating margin and potentially higher interest to

service. So I think this whole concept of balance sheet analysis is going to be fundamental to successful investing going forward. Not that many successful investors haven't been looking at balance sheets, but if you've been looking at balance sheets, they've probably held back your performance in the last 10 years.

Simon Brewer
There's a quotation here from Sebastian Lyon who's the Founder and CIO of Troy Asset Management. We both know him. And he said that our investment team very much enjoyed the forensic accounting course they did with you. Looking at corporate collapses such as Carillion and Patisserie Valerie, he says, 'It's our job to avoid the portfolio torpedoes at all costs which come from poor accounting, and it's particularly important to be reminded of this. Behind the Balance Sheet planted essential seeds for our fund managers.' So clearly, you've had praise from a number of quarters. If I can ask you to give us an example of one of those companies that survived and then suddenly, all of this was exposed, what was it that you were seeing and what was it that would typically be the red flags that would alert you?

Steve Clapham
Well, Patisserie Valerie, which you just mentioned, is a really good example. I use this a lot, especially when I go into universities to try and explain what I do to younger people who have got an interest in all this, and Patisserie Valerie is a great example because Patisserie Valerie was reporting margins which were higher than those of Starbucks. And the beauty of this is you don't actually need to be a sophisticated forensic accountant. For a lot of these fraudulent stocks, all you need to use is your common sense. So if you think about Starbucks, it makes predominantly coffee. Look at Patisserie Valerie, it used to make cakes. You just need to look at a cake and if you see the picture on their website of a cake, it's got a huge amount of labour in it and it's got a lot of cream in it. It goes off. Coffee is one of the highest-margin products in the world. You can't find a higher-margin product. And a lot of Starbucks sales are to take away. None of Patisserie Valerie's sales were to take away. Just think about this. So you've got a product that's much more complicated to produce, you've got one product that's being taken away. If you look at the cost profile of a typical UK restaurant, 35 to 40% of its sales are labour costs, rent, 12% sales. So just in those two items, you've got 50% of your sales. If you think that Starbucks was selling most of its product to take away and Patisserie Valerie was selling most of its product in-house, it couldn't possibly have higher margins or margins anywhere near Starbucks. That's a very good example of just using your common sense and asking does this look right would have told you immediately that Patisserie Valerie, there was something fundamentally wrong.

Simon Brewer
Whilst you explain it like that and it's obvious, clearly, it wasn't obvious to lots, hence the surprise in the collapse. Does it get much more difficult when you get other situations? I don't know, so I'm just going to pull this one out, Wirecard, which wrong-footed lots of analysts. I'm going to say that one of them, someone we both know and I'm invested with him, Chris Dale of Kintbury Capital was short Wirecard for some time, but lots of so-called expert investors missed it.

Steve Clapham
Wirecard, I guess you could have missed it until the point that Dan started publishing in the FT. And as soon as Dan started publishing in the FT, it was perfectly obvious because the FT is not going to write a front-page article about a stock being a fraud unless they've got quite a lot of evidence. So that should have led you to go back and question everything in Wirecard's accounts. The telltale signal in Wirecard was very obvious. It started off at a billion euros in cash, and it raised a €500 million bond and a €750 million bond. And when it went bust, it had 3 billion in cash in the balance sheet. You'd ask, why would it need that money? There was one reason it needed the money. It was that the cash wasn't real. It's surprising I think to many people and it surprises me. The one thing that the auditors should be able to check very, very, very easily is the cash balance, and why many

companies, and this is not a rare occurrence, many frauds, the cash balance that auditors should have checked turns out to be fake. And in the case of Wirecard, I think anybody that held the stock after all the evidence, and FT went on for a long, long time, anybody that held that stock surely should have asked themselves, is this real?

Simon Brewer
We had Scott Bessent, Soros' former CIO and the Founder of Key Square Capital on the show a few weeks ago, and he said about risk and I thought it just encapsulated thinking about risk really well. He said, my definition is both probability and severity, i.e., it's one thing getting it wrong, it's another thing being wiped out. And Patisserie Valerie and Wirecard are examples. Just to turn this around though, when it comes to evaluating companies on the long side, those good companies that you want to own for a long time, how do you think your forensic accounting helps?

Steve Clapham
Well, I think it really helps a lot because almost every company I look at is engaged in some form of earnings management, right up to the largest companies in the world, the Apples and the Microsofts, they are engaged in exactly the same practice. And it's one of these inflationary things. It's like grade inflation in exams. You see a CFO of another company engaged in flattering his earnings, and you think, well, if I don't do the same thing, I'm going to suffer and my shareholders are going to suffer. So you feel an obligation to push the envelope and make your earnings look better than they really are. And maybe Berkshire Hathaway is one exception that I could think of that they aren't engaged in that and probably the reverse. But just one instance, in the case of Apple, they've had about 170, 180 basis points of margin benefit from going from on one policy being extremely conservative to now being extremely aggressive. That's just one instance that I've spotted. And every company that I look at is engaged in earnings management to some degree. It's funny that you should mention Sebastian because when I originally met Sebastian, I said, 'You guys might be interested in my forensic accounting course.' He said, 'Well, come in and see my head of research.' I went in to see her, lovely lady, and she said, 'We only invest in quality companies. I'm not sure that this is for us.' And I said, 'Well, that's perfectly reasonable. Why don't I sign an NDA and you give me your 180 stock universe and I'll tell you how many of those stocks appear in my course.' And the course has got between 150 and 200 examples of real-life companies cheating, and there were several of those companies. And they were very, very shocked that I had found companies that they considered to be high quality. The companies are perceived as high quality and they've got high quality businesses, it's just that their earnings aren't as high quality as the businesses. And I think that this is really, really fundamental to valuation because what you don't want to do is pay a high multiple for a perceived high-quality business whose earnings are being goosed, and that is happening a lot today.

Simon Brewer
The other element that my suspicion is going to come back to haunt investors is the tax rates and a lot of these firms of course manage down their tax rates, and then the extrapolations on valuation come from taxpayers that may be very hard to sustain in a world that all the regulators and authorities are looking to raise more revenue.

Steve Clapham
Well, when I started this course in 2018, it was before this OECD 15% global tax rate came in. I used two tweets, one from Bernie Sanders and one from Alexandria Ocasio-Cortez, and they both highlighted that if you paid Amazon Prime membership, you paid more to Amazon than Amazon paid in US taxes that year. And I said, look, this is not going to endure. If you think about where we are in the world, every government in the world is up to its neck in debt post-COVID. So at some point, especially if interest rates are going up, I've forgotten how much the number is in the US, 14 trillion of potential interest payments in a few years. The problem you've got is that you've got a huge amount of debt and interest rates are higher. So you're going to need to either generate some

growth or some more tax revenue, and you don't want to take it off people that vote. Corporations have had a pretty easy time when it comes to tax, so I think that their time is going to come.

Simon Brewer
Tax rates and giving workers a larger share of the pie that has happened in the last 20 years may make the landscape much more tricky. Enough of my bearish interpretations. However, let's talk about what you develop. Because here at the Money Maze Podcast, one recurring feature that Will Campion and I are and have been asked about a lot is what financial training and teaching we would advise. In fact, we even had a dinner here for very interesting previous podcast guests and we discussed the problem in the UK of inward equity capital. But as an aside note, it was observed that understanding of risk was poorly processed in the UK, and that in fact, risk appetite often was not what it should be for a culture that wants to encourage correct risk-taking. Now, most people in the investment business I think we would both agree on are not sufficiently financially literate. And even the training within those investment firms differs, shall we say, and the CFA doesn't answer all of the solutions. So over the last 18 months, we've been looking and trying to understand you and your cause. So that's one of the reasons that we're talking today. And we put this collaboration together because your Behind the Balance Sheet online learning course will be available from today on our website, moneymazepodcast.com/learn. For Money Maze Podcast listeners who go on, there's a 10% discount, and we hope it helps you become smarter and avoid the losers as well as identifying the winners. But can you just talk a little bit about what somebody thinking about financial training, taking your course, should expect to discover.

Steve Clapham
The course that we're collaborating on is a course which covers every aspect of financial analysis. So it covers not just going through the financial statements, but it is a really in-depth detailed walkthrough of a real-life example, a company, actually a company that was being quite aggressive in its accounting but looked to be very clean. So you go through that module, and at the end of that module, you should have a pretty good understanding of some of the nuances, some of the tricks, some of the tricks of the trade. I actually went through this yesterday with the people that I've been training today, and these people are very smart, two years experience at other institutions. They were amazed when they went through this material. Now, I went through it with them quickly in person. When you do it online, the additional advantage you've got, there are some exercises. So you download a spreadsheet and it gives you some questions, you complete that exercise, and then you download an answers sheet. So you can actually get practice and get help. And I think online education is looked down on by some people because they think, oh, well, I'd be much better off in a classroom. But this is fantastic material because you get the chance to practice on your own, in your own time. I've got one student who completed this course by sitting down every lunchtime on his mobile phone or on his laptop. So you can do it in your own time, at your own pace, at your own leisure. The financial statements is the start of it, we then go through how do you find a stock idea, where do you look, how do you find it, and then how do you decide is it a good idea or not, so how do you test the hypothesis? How do you decide is this a quality business or is this something that I should leave? We then go through all the ins and outs of valuation. We even cover the theory, even though I don't believe in the theory, but we cover the theory just to make it complete. And we go through all the practical elements of valuation. How do you think about a PE? What drives a PE? What do you look at in addition to a PE? Because I don't believe that you just look at earnings number. I believe you need to look at the cash flow. So we look at how do you calculate an enterprise value. We go through all these basic building blocks of valuation. We then put it all together by saying, okay, so you’ve found a stock idea, you've decided it is a good company, you’ve valued it, you've decided it's the right price, what do you do next? So we go through, how do you pull the trigger? So how do you refine the timing of entry into the position? Then how do you build a portfolio? How do you build a robust portfolio which is diversified, not just sectorally and geographically, but against all sorts of robustness against outside measures? We then go through, how do you manage that portfolio? How do you monitor it? So this could be a person looking to look after their own personal portfolio or you could be an analyst

fund or you could even be a portfolio manager. I've got loads of portfolio managers, who quite surprisingly, they've actually done this course to try and improve their skills. And we go through, how do you monitor the outside macro? How do you look at macro events? We've got a whole team of three, four or five economists, I've forgotten how many, explaining how they go about looking at the macro world so you've got some idea of how the macro and the micro relate to each other. And we've got a section on ESG. And then to wrap it all up, we've got two really long, extensive, detailed case studies, one where I follow a company which from over a three, four year period, we go through every set of results. We've got research that was produced at the time of those results. That stock went from £4 to £18 over that period, so you can see this is how a real-life company can make you money. And then we've got a short idea of where the stock completely imploded. It went down I think probably 80% and we track that from the original short idea down to where it eventually ended up. And there's loads of testimonials on the website. People who have done this course and done the CFA said it was miles better than the CFA. We've got somebody who did a course at Columbia University, an online course, which is a multiple of the price. They said this was miles better than the Columbia. It's a really high-quality endeavour.

Simon Brewer
Well, that's really well explained. So how many hours would you think somebody signing up should be allocating?

Steve Clapham
Honestly, I don't know. Because everybody's got a different pace of learning, everybody has got a different level of experience. If you want to do the entire course, what I suggest is you do every Monday night, you sit down for two hours, and at the end of the year, you have covered all the ground. There's a lot of however additional reading. I've got some quite left-field views on certain things like I don't believe in valuation theory. So I don't believe I should foist my views on the innocent student. So yes, I do foist my views on innocent students. I give them the counterargument. So wherever I've got a slightly left-of-field perspective, I make sure that I've got the conventional argument in a PDF or some reading. And there's a whole load of podcasts, you make a few appearances, a whole lot of video content, because not everybody likes to just read. And there's a whole load of homework where you get here's one of Warren Buffett's letters, here's the things that you can take away from this. So this is external to the course but additional stuff if you want to get involved. But two hours a week for a year or a bit more, and if you've got some experience, it'll be considerably less time.

Simon Brewer
That's extremely clear. I think Will, my partner, said that he described it as a life jacket for the years to come ahead. And I think the inverse of that also could be the engine for outperformance on the long side. I know you've written the book 'The Smart Money Method' and we'll be publishing and featuring a number of these on the website. And we really hope because financial education is so important, it's so important for the next generation as well as the current incumbents who are charged with the responsibility of managing money, that this can be a really useful tool. I've got five quickfire questions that I'm going to ask you. The long-short universe, do you think it's failed to deliver?

Steve Clapham
I don't necessarily agree with that perspective. People compare the long-short returns with Wall Street performance that shot the lights out. Obviously, if you're long-short, you're not going to do as well a long-only in a bull market.

Simon Brewer
So who's the best investor or the most impressive investor you've met in your career and why?

Steve Clapham
That is a very unfair question because I've got all these clients and I would have to name one of those clients. Obviously, Buffett and Munger are champions and nobody will ever come close to their record. I would have loved to meet somebody like Druckenmiller or Soros because just the magic when you listen to them. But there's a huge number of people that I've got an enormous amount of respect for. I think one of the wonderful things about the podcasting game is that you get the opportunity not meet them, but at least to listen to them, and I think that's been fantastic.

Simon Brewer
We were lucky enough to have Scott Bessent who worked with Druckenmiller and said that Druckenmiller was the single most impressive investor that he had ever met. And then when asked about Soros' skill set, he did say he said the best thing Soros ever did was to hire Druckenmiller. So I thought that was rather funny. And then Ray Dalio has talked about his approach, and you're absolutely right, it is a great window, the podcasting world, on being able to listen to expertise. I don't want to give anything away from your course, but is there a stock today that you would want to avoid?

Steve Clapham
Oh, no, I'm not going to name a stock. These questions are terrible. I hate them. I think honestly, anything that's got debt today you want to be very wary of because people have grown accustomed to easy markets. You and I have grown up with markets where debt was really an issue and I think people have overlooked that. So I would just, not answering your question, but anything with debt is something that you want to be very wary of.

Simon Brewer
That was Will Campion's question, not mine. Anyway, so I think that my final question is, and you alluded to it, but what's happened at the accounting firm that has allowed some of these corporates to get away with bad behaviour?

Steve Clapham
It's a really good question. I wish I knew the answer. One of the Big Four is a client of mine, and I trained 500 of their partners in how to spot fraud. So my main thing is a forensic accounting course for investors, but I also do this fraud detection course. And I was really surprised that not all the Big Four wanted to do this course. There's still time, there's still hope, but I think they have really taken their eye off the ball. And it was quite interesting the reactions to my course with them. So I did two two-hour presentation for 250 people, and it was quite interesting that I was just looking at it from a completely different perspective. I think the problem with the accounting profession is the partner in charge of an audit often has done no job in the real life other than being an accountant and being an audit partner. And today, the world's very much more complicated. And I think you do need to look at things through a different lens. I think it's just a lot easier for me to spot these things because I go in with a different mindset and a different approach. So I think that the accountants need to get my training.

Simon Brewer
Got it. So Steve, thank you. You are one of a very small cohort of people who can get behind the balance sheet, and I think we agree that this is more likely than not to be a testing investment climate for some time. And being able to do that forensic accounting may make a big difference to your investment returns. Whether you're a private equity firm, or a pension fund, or a hedge fund, or an individual, this could be invaluable. So we hope that this course that you've been offering and that we're collaborating on will be a gateway for lots of people to become better informed. So thank you for being here, and we look forward to working with you.

Steve Clapham

Well, thank you for having me. I'm excited.

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