

Frank Curzio's FRANKLY SPEAKING



Announcer: Wall Street Unplugged looks beyond the regular headlines heard on mainstream financial media to bring you unscripted interviews and breaking commentary direct from Wall Street right to you on Main Street.

Frank Curzio: What's going on out there? It's Friday, September 7th. I'm Frank Curzio, host of the Frankly Speaking podcast where I answer all your questions and markets [inaudible 00:00:23] covering sports, and anything else you want to throw at me. I created this podcast to answer more of your questions that you would send me to my Wall Street Unplugged podcast which I host every Wednesday. If you want any questions answered, just send me an email at frank@curzioresearch.com. That's frank@curzioresearch.com. Be sure to put Frankly Speaking in the headline and you never know, your question may be the one I read on this podcast.

Let's start with a question from Jeremy. He says, "Frank, thanks so much for AVAV", that's AeroVironment. "Should I trim a little more or let this big winner ride? Keep up the great work. Us little guys really appreciate it".

Thanks so much for that. AeroVironment reported earnings this week. They usually report off of earning season, like maybe a week or two after earning season ends, so it just kind of comes out of nowhere, and they reported another blow out quarter. I mean just blew out the numbers in every respect. Stock surged another 14% on the news. Again, this is AVAV AeroVironment, one of the largest drone manufacturers in the world. It's close to \$100 a share while pretty close to 300% on the stock in a little over 18 months, not even 18 months, around there. Don't quote me on that but it's around that time frame.

This is a Curzio Venture Opportunity pick, and this is what that newsletter is designed for, like finding these types of stocks that we see huge growth potential in. It's a high risk, high reward newsletter and a stock like this will pay for your subscription three, four, five times over and this is, I want to say our fourth 100% winner in less than two years in this newsletter. We also had a takeover and a lot of stocks are up. We've been doing very, very well. Listen, to be fair, it's a good market. We're outperforming the market easily, but that's my job to try to find these ideas for you. I appreciate it, but again, you pay a lot of money for that service and I'm glad. I'm just doing my job, but when you look at AeroVironment, really strong sales. Unmanned aircraft, specifically UAVs, mostly from the government. There's a big part of future spending in the defense budget and not just for our government but for governments around the world.

So AeroVironment, just to bring you back, and this was about two years ago, they reported two consecutive bad quarters. Two quarters in a row, really bad earnings, and everybody just ran to the exits. The stock fell 40%. Nobody liked it, and this is what I try to tell you guys. When you see a company come out of favor, find out why, because if this is a temporary trend, just spending more money to get into ... So biotech stock, that the FDA just wants a little bit more information on it. You'll see the stock fall 40, 50, 60% sometimes and it's a great opportunity for you to buy because people are just selling and asking questions later.

You have algorithms triggering in. They just force selling even more. It's why we see in the market where the stock opens up or reports bad earnings, and it opens up down eight percent. It finishes down 15, 16, 17%, and vice versa. When a stock opens up five, six percent, you'll see it up 17, 20% by the end of the day because the algorithms are all triggering and it just provides a real good opportunity and that's what I saw with AeroVironment where here's a company that was doing great. I went to consumer electronics show. They had drones everywhere. But it was like personal drones. Remember how big that was two, three years ago? Oh that personal drone putting

cameras on it, but you're not really seeing too many anymore, right? And they saw that happening and said, "You know what? We want to focus more on governments. Not just the U.S. government but allied nations".

Now they are one of the largest manufacture of drones if not the manufacturer. I don't think you have much competition where they're a pure play on this and you have different parts of defense companies that like a very small part of it will manufacture drones, but these guys are starting to get huge, huge orders and it just continues and continues. They took, you take two steps forward, they took one step back and nobody wanted to hear it because that's the way the market is now. All short term earnings. You missed a quarter, you're gonna go down 10%. You missed two quarters, you're going down 30 or 40%. Everybody runs.

For me, I love the initiative. They said, "Look. We're looking long term. This is where the growth is". And we have what? The defense budget is gonna be announced and they're focusing on drones. Our allied nations are just focusing on drones. This is a big part of the defense budget. So you have huge talents behind this company and then when you look at the numbers, 127% growth in sales, year over year. Gross margins increased to 41% from 36% last year. Guys, that's a massive, massive, massive gain in gross margins. You don't see that across other industries.

Why are they so high? Because you don't have that much competition out there for these guys. Who is spending on this? Well we government, defense companies and those guys, they have a lot of money to spend, big balance sheets, governments, money printing. Everybody agrees we want better defense. What do we do? This is the best part, right? It's unmanned. People aren't going to get hurt. You have these drones. You have to see the technology behind this. If we had the technology that we had today would have ... [inaudible 00:05:34] would have been captured how long ago? I mean they literally have the cameras that have technology that, facial recognition technology that

they can view from two miles down and tell exactly who that person is and then launch a drone and then blow up. I mean, it's incredible. It's incredible.

This is an industry that's still in its early innings. I don't want to pile on and say, wow, up 300% on this stock. And by the way, for my CVO subscribers, I told everyone to take half off when we were up a little bit over 100%. I said let the rest ride. My thesis is still intact and it's a really good pick. But it just shows you, this is where we're looking. This is how we do our research and really focus and this is how you should do it as well. Look at companies that are getting crushed off of something that could be temporary.

Maybe they're spending more money. Spending's not a bad thing when you're Facebook where they have a history of spending money and acquisitions that are pretty good, right? Oculus, Rift, Instagram, or companies that are horrible at spending money sometimes. Put Microsoft in there. HP, depending on, you know, it's just when some companies spend money, you've got to spend money to make money you want to make sure they're spending it the right way but usually you're going to see that growth later on, especially after they're spending more money to markets, against certain markets and also they're announcing cost cutting measures. Now you get that benefit of a huge earnings surge because now you're going to see, you know, a lot of analysts miss out on that because they underestimate how much cost cutting there could be when unfortunately it usually means getting rid of employees or closure of facilities, you become a leaner business and then you're spending money on growth initiatives and then once they come around and you couple that with cost cutting, I mean, your earning starts to surge and we see that DXE Technologies with their stock. People say, why are you giving it away? These are stocks that were up a lot on guys, that we got in very early before most people even heard of them.

So, I like giving examples like that. You look at a company it's 157 million dollar backlog yet it's only a two billion dollar

market capped company. It's trading at, and this is key guys, because you see stocks like this and people run away where right now it's trading around, let me see, around 40, try to figure this out really quick, I just got to do the numbers again but it's around 40 times, 45 times, 42, 43 times earnings based on the current earnings if you just multiply those by four quarters because they blew out earnings and you're looking at reporting earnings of 58 cents a share. They would expect they report 31 cents a share. I mean, there's high expectations on this stock, they run them tremendously. I was expecting a mild beat and maybe a 5, 7% sell off. That's usually the way the market works. For this thing to really blow out the numbers and go up another 15% to new highs, to all-time highs, it's amazing but you see 42 times, 43 times earnings and say, whoa, I wouldn't touch that stuff. Don't be like that, I made that mistake in my career.

Apple. Netflix. Celgene. These are stocks that were trading between 50 and 100 times earnings in 2004, 2005. As long as you continue to have that growth. Imagine buying Netflix. I didn't buy Netflix. I thought it was super expensive in 2004, 2005. I'm not buy this thing 120 ... Look back. 130 times, whatever they traded at it was crazy, I'm like, you're out of your mind but they're just growing tremendously and I never got the thesis on that. I never understood Netflix in a way where I was like wow, these guys, compared to cable companies they're expensive. I just never figured it out that, I always thought they're trying to compete with the cable companies. No, every single cable company is trying to compete with Netflix. Netflix is owning this market and when you look at it that way, then you're like, now you see the massive growth because if you're going to have 2, 3, 500% winners, usually it's going to come from growth stocks that are growing their earnings. You see that like in technology, Cloud, big data analytics, we're just going to analyze a couple for you in a minute about that, in that sector.

But it's not from buying a stock that's, oh, it's trading at 12 times ... there's a reason why it's trading below a market

multiple. Usually things are wrong and they don't see growth but we're in a growth market, deal with it.

This company is not expensive compared to the massive growth that they're seeing and I still think you're going to see some more upside ahead. 100 dollars now, a really nice gain for us. Again, I'm just doing my job. I love to see these gains. This is why I do this. I love this. I love making people money and thank you so much for that shout out but again, I'm glad that you bought it and this is one stock that I know a lot of our, you know, I'm recommending Amazon and lot of people say, "Amazon. You recommended Amazon" and that my Curzio Research Advisory like around 900 change and we're up over 100% on that stock and a lot of people didn't own it because it's Amazon and it wasn't me just recommending Amazon, I recommended Amazon because I'd literally went through every single one of their competitors and no-one's even in the same ball park, valuation or anything of how fast this company could grow and I know a lot of people didn't own that stock in that newsletter which I get, I understand the rationale behind it but this is one of the stocks I know a lot of people do own in Curzio Venture Opportunities newsletter.

Very happy to see it and it's one I think of 400% winners now in our portfolio and very happy to see people doing very, very well because that is a high priced product and you're getting stocks that you're not going to hear pretty much any place else. You're going to hear about this stock a lot, all the time and now you're going to hear about it all the time, it's great to get in 20's, 30's or whatever compared to people going to mention and seen IBD at 80, 90 100 now but that's my job trying to find these ideas for you.

So, I'm glad it works out and again, it's awesome. I just love to see subscribers make money. Now, moving on to the next question and it is from George. George says, "Hey Frank. Keep up the great work. I'm currently a subscriber to Curzio Research Advisory, Curzio Venture Opportunities and Moneyflow Trader".

Thank you so much. I mean, these subscribers, he's spent every one of our products. I really, really appreciate that. It means a lot. He says, "I enjoy your podcast. Continue to learn every time also thankful to make some money because I'm one of your unusual followers who invests in all of your portfolio picks. I'm a current investor. I've also done a couple of your recommended private placements".

Private placements are something that we offer in Curzio Venture Opportunities, guys. As my question is, "Since I buy all portfolio picks, I'm now just under 40 positions, excluding the options that we have in Money For Trading, which is my [inaudible 00:12:16] newsletter. If we hold these at 12 to 18 months and adding to it repositions each month, are we not getting to the point of holding too many positions? We got to start weeding some of these out. I've taken profits in all 100% winners. Feel somewhat shaky trying to keep all the plates in the air. Your thoughts would be appreciated. Thanks again for everything you do. Good husband, father and sports enthusiast. Glad to hear your daughter is pressing well with Cronos and God bless you and the family".

George, thanks so much for that and this is an awesome question actually. If you're looking at those re portfolios and say you have a portfolio, you could use whatever amount of money you want but say if you have 100,000 dollar portfolio because two of those newsletters are actually high price newsletters. Maybe you have 50,000 portfolio, maybe you have a 10,000 dollar portfolio. You want to debt allocate a certain amount of money to those portfolios and say, which I don't recommend doing, I'm just using this as a hypothetical, you know, just hypothetical.

If you split that out between Moneyflow Trader, Curzio Research Advisory and Curzio Research Opportunities and say if you split all three equally, 33, 33, 33,000. I would say, if you own 15 positions in each, it's like 2,000, 2,200 dollars a position. Maybe for small caps, maybe you don't want as much but again, this is money that you're putting into these products where

you might have more money in your 401K, you know, you want to make sure there's an overlap of maybe Curzio Research Advisory because there might be a couple of overlapping things, especially if you go on Amazon. I'm sure Amazon is probably most value funds these days, right? It really is, which is incredible because they want to perform, and they can't perform. The value's been horrible and really sucky over the past how many years. Just ask David Einhorn. I'm not pouring on the poor guy. I know he's just ... You have to be able to switch up your investment style and go with the market and go what's working instead of being down for five years because you're losing a lot of money for people. You don't want to do that.

Anyway. I'm not taking on, I'm a fan of David Einhorn, it's just been a really bad streak for him but that's probably the best way to do it. You want to buy as many positions as possible. For me, my job is I want to try to put as many ideas in front of you. I'm in a position right now that's really cool. It took me a long time to get here. For over two decades where I interview someone who is brilliant every week on Wall Street Unplugged and we share ideas and I see ideas all the time. I have James [inaudible 00:14:41] the other day with a couple of his ideas and big name people in the industry and hedge funds. Mike Alkin, has amazing connections in the hedge fund industry and we'll talk he's like, "yeah, one of my guys said this and that". It doesn't mean I'm going to take the pick or anything but I'm getting these ideas and I follow them. You don't buy them right away, start researching them. 13 F's are out there you can look at. Numerous sites. Go on Google it's going to show you all the picks that the biggest hedge funds are buying.

Again, you don't want to invest in these right away but a lot of these I keep on my list and sometimes you'll see a 20, 30% decline or sometimes you'll see positive news on these. I'm like, "yeah, that guy said something about this pick". I'll start researching it even more and then maybe I'll ask Alkin, "Who's the guy who likes it. Can I talk to him? Do you have any notes on it?". I have a great resource who I used to work with at

shree.com who's great, who's followed small caps and has given me amazing picks, like several amazing picks but having this network is really cool and I want to share these ideas with you but you do run into the problem where hey, there's a lot of ideas and everything but we do stop out of some stocks.

Not everyone's a winner. I wish they all were but we're doing much better. Our winners' easily outperform our losers but when you stop out what happens? You're putting money in your pocket. Sounds weird but say you stop out whatever it is, 30% stop, 25% stop, 35% stop, and you're coming out of the stop but that's why I always tell you follow stops because you always have cash. Do I want you to take a big stop, no. Do I want you to lose a lot of money, no but it's better than losing 80, 90% of your money in a position because that's gone and having some of those losing positions and having money on the side then you can invest in some of the things at the stock I mentioned before which is AeroVironment. You're taking profits and 100% winners so you're always bringing in cash and look, you know, it's great that you own every position. I wish most people did own all their positions. If you did, you'd be doing fine.

The only reason why I say that is because I get emails all the time, kind of like, "Frank, I'm getting crushed" and if I had 15 stocks in a portfolio and had say 75% of them are higher. We did sub [inaudible 00:16:51] positions. We have some that are up a ton but they'll highlight the five biggest losers. I own this, this, this and this and I email and I email them. I'm like, "Why don't you own this, this, this and this?". I can't control what you decide to buy if you've bought the five losers of the portfolio so diversify as much as you can. It's awesome. We do rebalance with a portfolio.

You're not going to see 30, 40 positions in a portfolio. We are taking profits in both newsletters because I just feel like the market's getting topky, there's huge expectations going into next earning season and I just don't think a lot of companies are going to be able to meet them. We're seeing inflation everywhere. Labor costs going through the roof right now.

Something we haven't seen. The tax cuts are really factored in here and even the companies are saying, whoa, we're seeing much higher costs but expectations are really, really high going in to next quarter and I can see a lot of companies missing and warning into the fourth quarter. If they do that you're going to see a lot of these growth names fall 15, 20%. They'll still be up 60, 70% in the last year, last 12 months but they're an inflated valuation.

So, that's the best advice I can give you. Try to continue to diversify. You're not going to see 30 positions in each of these portfolios. I mean, you're capable of 20 and try and keep it to 15 but you'll see rebalancing, you'll see me take profits in a lot of these things but my job is to try to give you as many ideas as possible, not force ideas, if I don't have an idea I'm not going to give it to you in the newsletter but I get a lot of ideas across my desk and it's pretty cool. These are things again, I could invest after I recommend these stocks. After you get in them, of course, but these are stocks I like to invest in too and that's what every newsletter should do, right? If you're losing money or you're making money, again, if I'm telling you I think a stock's going to go up 50% and I can't invest in it, why the hell would, think about it, if people are telling you that and if they really believe it's going to go up 50 times or whatever, they would invest in it themselves and in fact they can.

For me, I want to see that. I want to see the newsletter writer. I want to see that person out there, a fund man. They're investing their own money in these stocks. We have to do it in a prudent way, and make sure you guys get in first and again that's what we want to do but these are stocks I believe in and have passion in and again, I want to share as many ideas with you as possible.

So, hopefully that answers that question. I thought it was a great question and I'm so happy that you diversify because that's why you're up in almost every one of those portfolios because you're diversifying, you're not picking a few. I never get emails like, "Frank, I got you're seven top winners in a

portfolio”. I’ve never got an email like that in my life. In 25 years. I usually get the emails like, “Frank, here’s the six losers in your portfolio. I own only those six losers”. I get those all the time. It’s never the other way around. Thank you so much. I only bought these seven ... no, because you’d be up a ton but yeah, just happy the portfolio’s doing well.

Happy you diversify because I know that even some of you out there than I’m not the only newsletter. It’s not the publisher firm that you follow. Maybe you follow stuff from Agora or whatever, whatever you do which adds even more stocks to your portfolio and it’s hard to track but for us, that’s the best system I can come up with. Just keep diversifying, probably have 15 positions on these portfolios. That should be really, really cool for you to do.

Now, let’s take one more question and it’s from Bill.

“Say Frank, love your show. My subscription to Curzio Research Advisory. I’ve been a subscriber since the initial launch and I’ve been listening to you for about five years”.

Wow, that’s [inaudible 00:20:14] Bill. Thanks buddy. “I work in finance in Manhattan and my company’s been using Tableau, which is Tableau software, for a lot of our presentations and analysis with senior management. It’s a really cool tool and makes analysis and data visualization so much easier than anything I’ve seen before. I’m not well versed in software companies. I was hoping you could either give your take on it, frankly speaking, or consider it as a company analyze for Curzio Research Advisory. Keep up the great work”.

Bill, I’m very familiar with Tableau. Data is the symbol and I’m actually going to punch it up for you right here and the stock has been up tremendously. This is a big data company, Cloud based platform. Very large. Ten billion dollar market cap. 4,000 employees. 78,000 customers. I know that because they just reported last quarter and I saw it and I analyzed the company and with 4,000 new customers last quarter alone. So, you

know that their software is great. They have a great product. That ain't a lot of people. When I look at this company, it's made a monster move. It was 72 12 months ago and it's 113, what do you call it, so it's an all-time high and there's certain ways you can look at it. If you want to look at it from a value standpoint, you're going to see a company that's trading at 700 times forward earnings, ten times sales, ten times book value. It makes you want to go great, throw it out.

It's probably the same valuation because earnings have been growing that you saw when it was in the 70's but now it's over 100 and it is a growth market and that's what you want to look at. Hear me out first because you're seeing those numbers and saying there's no way I'll purchase a company like that but when you look under the hood, huge order growth. So, huge order growth, specifically in big orders. Orders over 100,000 dollars which is what software companies break at. Large orders, small orders. So, 17% growth. Very big growth in orders which were over 100,000 dollars which are showing that not only are they getting new clients the biggest companies but they're probably trying out their services and then they're expanding their services and that's really cool. That's what that tells me, when you have big customers and they love it so much that they're starting to use other products, the whole suite type of things. You see a lot of software companies operate like that.

Cross marketing just they land more products when you have 70,000 customers. I mean, you're looking at this model because they go into a subscription based model. This is recurring revenue, right? Everyone wants to do this because look what happened to Adobe, right? Remember Adobe PDF. Now they have Cloud services. They charge you monthly fees. Same with Microsoft, right? With Office. Remember you used to get the disk that they gave you for Office?

Now, it's just upgrade, here's a year's subscription. That constant revenue stream, that's the business model that Wall Street loves. It's easy to predict. You're seeing monster numbers come in. Massive cash flow but that's another thing

too because I want you to keep an eye on cash flow which came in much, much worse than expected the last quarter, which nobody talked about. They were expected to generate 34 million in free cash flow and it was seven million. What does that tell me? They're spending money, not a bad thing. They're probably spending money, you gotta spend money to make more so I like but that's a big difference. That's something you want to monitor, going forward.

You're not going to see big insider ownership. You're not going to see a lot of institutions buying the stock here. A lot of people believe it's expensive. As a trade, I think technical suggests it's going higher. It looks very strong here. We're in a growth market. If I would tell you to buy it here, which I'm not, but if you did and you really like it, it probably could go higher. I wouldn't be surprised, we're in a growth market and they're putting up amazing growth numbers but man, at 700 times earnings, ten times sales, ten times book. A lot of that's factored in and just know by owning this stock, what does that mean? Going into next quarter, you better hope that they don't miss. This company miss, you'll see a 20%, 25% decline in a blink of an eye and you've seen this from this company in the past because expectations got too high.

With a lot of big data Cloud companies, same thing. Splunk. Up and down. Now trading at new highs. You see a lot of companies within this industry do this. So, a lot of risk and I don't know if that risk is worth the reward and what are we looking for? 15, 20% gains here but you could easily lose that in a heartbeat if this company doesn't meet their estimates and they're not really growing as fast as I'd like to see. I mean, you're looking at sales growing only 10% year over year, right? Pretty slow for a company with 700 times forward earnings but just to put that in perspective for you here, the average company industry 500 is growing sales by the same exact rate, 10%, as of last quarter and the average company in the index is trading at 16 times earnings.

So, from a risk adjusted base, or risk reward, it might be better

just buying S&P fund than Tableau. That might sound crazy because Tableau could go a lot higher but you're also taking out a lot more risk. I'm saying risk adjust it and sometimes a 20% safe gain is much better than a 50% gain that's incredibly risky.

Again, in hindsight, you want 50% instead of 20% but again, if you can buy something that's very safe and ... Think about if I could tell you you have no risk and I could generate 10% returns for you. You'd take that in a heartbeat. Even though our returns in Curzio Venture are much, much higher than that but I would, you know, you want those returns where risk adjusted, it's safe. That's the name of the game, right? If you have a risk free rate, if you could provide a risk free rate of 3%, you have a trillion dollars that's going to come to probably within a week, right because interest rates are low, it's very hard to get those kind of ... It's very difficult, right because rates are low across the world.

But with this company, I just think you're taking on a loss of risk and I don't see massive gains. It's going to be very difficult for somebody to justify taking over this company. At this valuation, I think you'd have to be nuts. We could take on 20 times sales, 15 times sales, 13 times sales. That's a lot but they are seeing growth in orders. As long as those numbers continue, you'll probably see it drift higher. So again, just because they have a great product doesn't mean that you should buy the stock because it'll be ... Again, I love Snickers. It's a great candy bar but I'm not going to pay 25 dollars for a Snickers bar.

So, that's how you want to look at it with this company, where their software's great obviously they're adding customers. They're putting up the numbers. They're putting up the growth numbers but it's really getting ahead of itself here and deservedly so. They're putting up those strong numbers. As an investment, it might be a good trade but it's something that's very dangerous, especially owning this into the quarter because if they don't meet estimates, this thing's going to get blasted. I'm talking about 15, 20% decline before you can even sip your coffee. That's how quick it'll happen, so just be very, very careful.

Okay, is there any comments, questions, anything. Feel free to email me anytime. frank@curzioresearch.com, that's frank@curzioresearch.com. That's it from me. Have an awesome weekend. I'll see you again in seven days. Take care.

Announcer:

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