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Trade Alert

July 22, 2014

SPECULATIVE PORTFOLIO

Action: **Sell Silicon Motion Technology Corp.**

Ticker Symbol: SIMO

Buy Price: At the Market as soon as the financial markets open for trading on July 23, 2014

Action: **Sell Short GoPro, Inc.**

Ticker Symbol: GPRO

Buy Price: At the Market as soon as the financial markets open for trading on July 23, 2014.

Allocation: 3% of the amount of your financial market assets that you plan to use for speculation purposes.

SHORT-TERM TRADING PORTFOLIO

Action: **Sell Short GoPro, Inc.**

Ticker Symbol: GPRO

Buy Price: At the Market as soon as the financial markets open for trading on July 23, 2014.

Allocation: 10% of the amount of your financial market assets that you plan to use for short-term trading purposes.

Dear Member,

I advise those of you who follow our Speculative Portfolio to sell **Silicon Motion Technology (SIMO)** and to sell short **GoPro (GPRO)** in accordance with the trade instructions outlined above.

In addition, I advise those of you who follow our Short-term Trading Portfolio to sell short **GoPro (GPRO)** in accordance with the trade instructions outlined above.

Silicon Motion Technology

In regard to Silicon Motion Technology (SIMO), my research indicates that the company will increase its revenues and earnings at a healthy rate for the full year ending December 31, 2014. However, that same research indicates that financial market participants, in general, have become too optimistic about the company's future operating results and that they are now overvaluing the company's stock.

In light of the fact that SIMO closed on July 22 up 62.1%, on average, from the prices at which I recommended buying that stock on January 16, 2014 (at around \$13.65 per share) and on January 28, 2014 (at around \$16.24 per share), the factors mentioned above suggest that now would be a wise time to lock in your profits on SIMO. The fact that SIMO appears to have run into some substantial overhead price resistance seems to support that recommendation.

GoPro, Inc.

My research indicates that financial market participants are also over-valuing GoPro (GPRO).

In case you're not familiar with GoPro, the company designs wearable cameras and accessories that are used frequently to film extreme sports. Its competitively-priced cameras and camcorders became very popular with sports enthusiasts over the past several years due to their small, lightweight and durable design. Persons such as Olympic snowboarder Shaun White and world-champion surfer Kelly Slater are among many sports celebrities who have used GoPro's products. World famous stuntman Felix Baumgartner filmed his highly publicized space freefall on October 14, 2012 with a GoPro camera.

GoPro's flagship HERO3+ camera, which retails for between \$200 and \$400, depending on the specific image-quality and other features that a user desires, comes bundled with a protective waterproof housing, mounting accessories and built-in Wi-Fi capabilities.

The company's GoPro App enables users to control its cameras remotely using a smartphone or tablet computer and to easily copy images and videos that are captured with the company's cameras to mobile devices for storage and sharing.

GoPro also sells various accessories that enhance the functionality and versatility of its cameras and that enable users to self-capture their experiences during a variety of activities and from different viewpoints. Those accessories include helmet-, handlebar-, and tripod-mounts, as well as mounts that enable users to attach a GoPro camera to their wrist, chest, or head.

In addition, the company offers a powerful video-editing tool that enables users to create high-quality videos from images that they capture with a Go-Pro camera, and to upload those videos to the Internet.

GoPro performed extremely well over the past few years, with the company's net income rising by 88%, 31% and 114%, respectively, for the years ended December 31, 2013, 2012 and 2011 on revenue increases of 87%, 125% and 263% for those years.

After raising approximately \$196 million from the company's IPO, GoPro is also very strong financially, with its cash alone covering all of the company's financial obligations by a ratio of almost 2-to-1.

However, **GoPro's revenues and earnings declined substantially during the first quarter of this year. Specifically, the company's net income fell by 52% for the three months ended March 31, 2014, as compared to the same period a year ago, on a 7.6% decline in the company's revenues. On a sequential quarterly basis, the company's net earnings declined by 74.7% during the first quarter of this year on a 34.8% decline in its revenues.**

That comes as no surprise to me, considering that GoPro doesn't have any significant barriers to competition and that its products don't seem to offer anything that's substantially superior to Sony's Action Cam or JVC's Adixxion action camera, which were launched during 2012. Both of those cameras offer many of the same features as GoPro's cameras, and they sell for approximately the same prices as GoPro's cameras.

GoPro's management is likely well aware of the increasing competition that it will face from companies such as Sony and JVC, as well as from numerous other camera makers, including Canon, Nikon, Olympus, Panasonic, Samsung, and Toshiba. In my opinion, that's the reason that GoPro described itself in the company's pre-IPO investment road-show presentations as a media company.

Although GoPro stated in its registration statement that it expects to begin to generate revenues from advertisements on a new GoPro Channel that it plans to offer on Microsoft's Xbox Live, as well as from advertisements on its GoPro Channel on YouTube, the company said, "it does not expect the revenues earned from those channels to be material during 2014."

- Continued Below -

An even greater concern for public investors is whether or not GoPro's management will act in the best interest of all of the company's shareholders, as opposed to the interests of corporate insiders who hold the company's Class B Voting Shares.

Although I am always happy to hear that entrepreneurs who work long hours and take a lot of risks in life are able to make millions, or even billions, of dollars from the products and services that they create, I'm not impressed with the way that GoPro's founder and CEO made his fortune.

For example, my research indicates that Mr. Woodman took very little, if any, risks in founding GoPro. Although he apparently had some very good ideas regarding the design and development of GoPro's small and durable wearable cameras, he got the majority of his initial funding (\$200,000) for GoPro from his father, Dean Woodman, who was one of the co-founders of the now-defunct investment banking firm Robertson Stephens. Prior to doing so, he was traveling the world as a surfer.

While there's nothing wrong with someone getting money from his/her parents to start a successful company, I'm troubled by the way that Mr. Woodman used some of the profits that were generated from GoPro's products over the past few years. And, I'm even more troubled by the implications that those actions have for the company going forward.

Specifically, I'm bothered by the fact that Mr. Woodman paid himself approximately \$1.8 million during 2013 and, according to filings with the Securities and Exchange Commission, that he withdrew at least \$171.9 million from GoPro over the past two years in the form of cash dividends and sales of the company's stock, but that GoPro still has a net accumulated deficit of \$8.9 million.

I'm even more disturbed by the fact that the primary reason that GoPro went public, according to the prospectus that it filed with the Securities and Exchange Commission, was to pay off its \$111 term loan. That decision would not have been necessary if Mr. Woodman had not withdrawn more than \$170,000 from the company over the past two years.

In brief, the actions mentioned above suggest to me that Mr. Woodman has little interest in maximizing the wealth of GoPro's public shareholders. The fact that GoPro's public shareholders have almost no voting rights, with the holders of its recently-issued Class B shares holding 98.4% of the voting power of the company's outstanding capital stock, seems to support that opinion.

Meanwhile, GoPro's stock appears to be extremely overvalued, with the company's stock closing on July 22 at a price-to-earnings multiple of approximately 109, and my research indicating that GoPro will be unable to grow its earnings in excess of a 30% average annual rate over the next few years.

Because of the factors discussed above, I advise those of you who follow either our Speculative Portfolio or Short-term Trading Portfolio to sell GPRO short in accordance with the trade instructions outlined on page 1 of this Trade Alert.

However, **I urge you to keep the following in mind:** Investment banking firms that were involved in GoPro's IPO, which occurred on July 24, 2014, will likely continue to support the stock over the next several months by issuing favorable press release about the company and by acquiring the company's stock in the open market. Hence, selling GoPro short presents a lot of risk at this time.

Therefore, if you decide to follow my recommendation to sell short GPRO, I urge you to monitor the stock closely in the event that its price were to move higher. If GPRO were to rise by more than 8% above the price at which you sell it short, I would likely advise you to cover that short immediately.



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