OpportunisT Magazine

Tomorrow's Opportunity Today!

Dec. 8, 2015

Impact Investing DONE RIGHT

Plus: Interview with

Michael Markowski

$9.95

0 123456 789012

Financial sector pioneer and visionary analyst Michael Markowski talks with *Opportunist's* Managing Editor Leslie Stone about his career, the significance of crowdfunding and why he believes the world's stock markets are entering the best five-year period ever.

Interview with Michael Markowski

www.dynastywealth.com

Michael Markowski has been in the capital markets for nearly 40 years. During his career he worked for big name brokerage firms including Merrill Lynch, Oppenheimer and Donaldson Lufkin & Jenrette and held the positions of broker, analyst and portfolio manager. As an investment banker he specialized in underwriting the IPOs of early stage companies. Upon leaving the brokerage industry he founded GFNN, Inc., (Global Financial News Network), CrowdClassifieds.com, Inc., StockDiagnostics.com, Inc., OnlineFinancialSector.com and Dynasty Wealth, LLC.

After conducting a post-bankruptcy examination of Enron, Markowski discovered an anomaly in the company's financial statements. He used this discovery to develop long and short algorithms that he has utilized to make well publicized and successful long and short predictions.

Over the years Markowski has used his "stock diagnostics" to make highly accurate buy and sell predictions, and he has participated in several stock picking contests held by magazines. His picks have outperformed several of Wall Street's most visible stock pickers including Mario Gabelli and CNBC's Jim Cramer. A SmartMoney.com article praised him as the "best stock picker on Wall Street" and "21st century's reincarnation of Benjamin Graham," and *Fortune* magazine named him one of its 50 Great Investors. He is a former columnist and occasional contributor to *Equities Magazine* as well as a contributor to Seeking Alpha.

After the JOBS Act was signed into law by President Obama in 2012, Markowski immersed himself in learning everything he could about the subject. He has emerged as a leading authority on crowdfunding and its impact on the global economy. Based on his belief that crowdfunding will become the third major digital innovation and his knowledge of the JOBS Act and how it will change the capital markets, in 2014 he founded Dynasty Wealth Investing, a social investing community (SIC). The company specializes in recommending to its investor members global investments that have the potential to increase by more than 100 percent annually and by 10 to 100 times within five years.

Opportunist: What kind of impact do you believe crowdfunding will have on the global economy?

Markowski: The SEC's lifting of its final crowdfunding ban—in place since 1933—will have a significant impact on the global capital markets, ostensibly for the rest of our lives. History will confirm my prediction that the best five-year period ever for the world's stock markets will be 2015 to 2020. I also predict that the crowdfunding industry will compete with the social media and search industries to become the largest digital industry in the world by 2025.

Opportunist: Will participation spread across the globe?

Markowski: I am projecting that the total number of eligible crowfunding participants in the world will grow from fewer than 100 million in 2014 to four billion in 2018. My projections are based on Ericsson's estimates of the global smartphone-user base and the percentage of those above the age of 18 by 2018. I am also projecting that by 2019 upwards of $3.3 trillion per year—1 percent of the world's household wealth—will flow from the crowd into the world's businesses. The fees and advertising revenue generated by businesses facilitating the raising of capital for companies via crowdfunding will grow to $198 billion per annum. This amount is nine times greater than the $22.2 billion of revenue generated in 2014 by Visa and MasterCard combined.

Because of the cumulative total of the fees that will be generated, and inasmuch as there is little required to close and/or service a crowdfunding transaction, I predict that all of the world's largest online companies including Amazon, Alibaba, Facebook, Google, Twitter, LinkedIn, etc., will eventually participate in equities crowdfunding. For example, the facilitation of a $100 crowdfunding transaction will be much easier and less costly for Amazon than having to deliver its books or other items. Additionally, those businesses that fail, which have raised monies from the crowd in increments of $100 or less—the manner in which I predict most businesses will receive funding—will have little if any legal concerns.

On Nov. 18, 2015, Facebook announced its new fundraisers tool that allows nonprofits to set up a campaign page to collect donations. Facebook can use a derivative of this new product to enter online crowdfunding.

The lifting of the second ban by the SEC will enable crowdfunding to become the third major digital application or innovation to evolve since the economy began its transformation from industrial to digital. The transformation began after Netscape unveiled its Navigator web browser in September 1995 and the web started on its path to becoming ubiquitous when it grew to over 500 million users by 2001. The first major application to evolve in 2002 was social media. The second major application—smartphone apps—evolved as a result of introduction of the smartphone, a device that enabled the growth rate of web users to reaccelerate when Apple introduced its iPhone, the first of the smartphones in 2007. Similar to the evolution of the first two major digital innovations that enabled the shareholders of Facebook and LinkedIn, Apple, Airbnb and Uber to create immense wealth, crowdfunding will enable those companies that emerge as leaders to create immense and dynasty wealth for their shareholders.

Opportunist: Now that U.S. regulators have adopted Title III of the JOBS Act, what's next?

Markowski: As a result of the SEC's lifting its final ban, by as early as 2016 the advent of global crowdfunding will begin to produce an increase in economic activity for a majority of the world's countries that adopt crowdfunding, and this increase will accelerate in 2017 and beyond. Because of this increased economic activity and the resulting capital gains taxes from the increasing prices of securities, the budget deficits and surpluses for the United States and other developed countries will steadily improve.

Opportunist: How did you first get into the financial services industry?

Markowski: After I was graduated from Florida State University in 1977, I accepted a job as a stockbroker trainee with Merrill Lynch at the ripe old age of 21. I later learned that I set the record for being the youngest stockbroker ever hired by Merrill. I did not know it at the time, but the time I spent as a trainee would set the stage for my entire life's work.

Opportunist: What happened next?

Markowski: What happened was, because I was so young and naïve, my manager put me through an extended training program. It included my being a clerk in the back office. One of my jobs was to open the junk mail. What appeared to be some junk mail came in from Standard & Poor's. I opened it and it was a list of the top 10 public companies with the best earnings growth over the previous 10 years. When I saw it my immediate reaction was: What does earnings growth have to do with stocks? Instead of depositing it into the 'round file,' I kept it and decided to look up the price performance of the shares in the library after work that night. I was shocked by what I discovered. All of them had increased by at least 20 times over the 10-year period. That made a lasting impression on me, and to this day I distinctly remember the names of Tandy (Radio Shack) and Horn & Hardart being on the list. I made the decision to devote my career to finding stocks that could multiply by at least 10 times in price for my clients.

Opportunist: Were you successful?

Markowski: When I finally received my license and officially became a stockbroker I went through Merrill Lynch's approved recommended list and found two stocks trading below $10 share. I did this because I believed that the key to making my clients 10 times their money was to buy at very low price. The two stocks I initially recommended were Geico and Phillips Industries. Geico was acquired five or 10 years later by Warren Buffett's Berkshire Hathaway at a multiple of 10 times what my clients paid. The share price of Phillips Industries also increased by 10 times within five to 10 years and it, too, was acquired.

Opportunist: Why did you leave Merrill Lynch and eventually the brokerage industry altogether after only working in it for 14 years?

Markowski: I left Merrill Lynch and eventually the financial services industries in 1991 because the industry's incentive and compensation system was totally counter to my long-term buy and hold philosophy. The structure was hopelessly flawed to the detriment of the client. A stockbroker advising his or her clients to buy and hold stocks was a recipe for their going broke, since back then 100 percent of a stockbroker's earnings were based on generating commissions. Also, I was not intellectually stimulated.

Opportunist: Where did you go next?

Markowski: I entered into the financial information publishing industry when I founded SSNN, an acronym for the Small Stock News Network. The name of the company is now GFNN, Inc. My purpose for founding the company was to develop an automated system that could detect financial statement anomalies that could be used to predict the future performance of the shares of a public company and identify those companies that would be the worst and best performers.

During my four-year stint at Donaldson Lufkin & Jenrette, the firm where I worked the longest during my brokerage career, I did some research that enabled me to find correlations between revenue growth and stock price performance over 10-year periods. This realization convinced me that financial statement metrics could be used to predict future stock prices.

Opportunist: Was it during this time that you were able to develop the financial statement anomaly detection system?

Markowski: Yes. The development of the detection system was completed at about the same time that Enron filed for bankruptcy. I utilized the new system to perform a postmortem examination on Enron. This autopsy enabled me to discover 'The EPS Syndrome' and I also developed an automated algorithm to detect it.

Opportunist: For those who don't

Michael Markowski speaking at the Silicon Valley Crowdfunding Conference, Palo Alto, Calif., April 2014

know, can you explain what EPS Syndrome is?

Markowski: The syndrome occurs when a company is reporting record quarterly earnings while at the same time having negative cash flow from operations exceeding the earnings. My empirical research uncovered 300 public companies including appliance manufacturer Sunbeam that had the syndrome when they went out of business five years before Enron filed for bankruptcy. Soon after discovering the syndrome I used it to predict the bankruptcies of seemingly healthy public companies including The Fleming Corporation, which was listed on the NYSE at the time and had paid a regular dividend for more than 40 years. I actually predicted its bankruptcy within a couple of months after Morgan Stanley had raised Fleming $300- to $400-million. I also used the software to predict many winners. Because of my diversity, *Equities Magazine* approached me in 2004 to write a column that wound up being titled 'Winners and Sinners.'

In *Equities Magazine's* September 2007 issue, which was exactly one year before the crash of 2008, I warned my readers to get out of all the brokerages including Lehman, Bear Stearns and Merrill Lynch when the stocks were at or near their all-time highs. I had diagnosed all of them as having the EPS Syndrome for multiple quarters. When the share prices for most of them went up instead of down I reiterated my warning emphatically in *Equities Magazine's* January 2008 issue. The biggest winner for my column was in February 2010 when I recommended a dozen companies in two industries that I had determined were deeply undervalued. On the five-year 2015 anniversary, 11 of the 12 picks were profitable and 10 significantly outperformed the S&P 500 over the same period. The only pick that was negative was down 7 percent.

"The crowdfunding industry will compete with the social media and search industries to become the largest digital industry in the world by 2025."

—Michael Markowski

Opportunist: Was there ever a time that you were wrong?

Markowski: From 2009 until 2013, I was negative on the market. The market bounced significantly off of the 10-year low that it set in 2009. However, in my May 2013 column I turned very bullish on the stock market and on the U.S. dollar versus the euro and yen and I continue to be very bullish. The S&P 500 has advanced 26 percent since then and the U.S. dollar has gone to multi-year highs versus the yen and the euro. In 2013, I turned very negative on gold, oil and grain commodities. I predicted that oil, which was trading for approximately $100 per barrel, would go to $50 by the end of 2014. My prediction that gold would hit new annual lows from 2013 to 2018 has so far been right on track. The market experienced its single biggest one-day point correction since 2011 during the mini-crash that occurred Aug. 24, 2016, while all the market pundits were yelling that 'the sky was falling' I wrote an article titled 'Major U.S. Indices to All-Time Highs in 2016; Current Correction Underway Will Be Short Lived' predicting that the correction would be short-lived and that the market would go on to make all-time new annual highs in 2016, 2017, 2018 and 2019.

I also took the liberty to update all of my other predictions originally made in 2013. Additionally, I recommended the shares of a half dozen or so large-cap companies that are well positioned to capitalize from the ongoing transformation of the world economy from industrial to digital. All of them have since significantly outperformed the market and I am predicting that they will continue to do so.

Opportunist: To what do you attribute your accuracy for macro predictions on indices and on currencies, commodities and so forth?

Markowski: When I was in the brokerage business I spent a lot of time in Europe. There were many Swiss banks that were my clients. Because of that I know how non-U.S. investors think. I made my predictions in 2013 because of the Cyprus banking crisis that had occurred in March of that year. Cyprus resolved the crisis by confiscating all the funds from only those accounts that had more than 100,000 euros. Since Cyprus is a member of the European Union I had believed that the EU's finance ministers would not permit Cyprus to get away with confiscating monies from the wealthy. After they allowed Cyprus to do just that, I knew that was the bitter end for the euro. A new precedent had been established, and I concluded that the wealthy within the remaining 27 of the 28-member countries forming the European Union would be motivated to transfer their wealth out of Europe, based on concerns that the EU's finance ministers would likely allow their countries to confiscate their wealth. New lows for the euro versus the U.S. dollar meant the prices of all commodities would go down considering they are all priced in U.S. dollars.

Opportunist: Now that the SEC is allowing anyone and everyone to invest how do you see crowdfunding playing out?

Markowski: There are two primary industries emerging to drive crowdfunding. One is the regulated crowdfunding platforms or portals. They operate similar to an escrow agent. The other is the unregulated social investing communities (SICs). Both are required for crowdfunding to succeed. The key driver of crowdfunding will be the SICs, which are the natural evolution or the extension of social media. Since they are unregulated and social, the leaders of the SIC can make investment recommendations to their crowd members and educate them on how to invest. My report 'Crowdfunding Must Get Back to its Roots,' published in October 2014, explains the SICs and why they are integral to the success of crowdfunding. I predict that there will be hundreds of SICs. The SIC industry will be as big as the social media industry by 2025. Dynasty Wealth Investing, the company that I founded, is the LinkedIn of the SIC industry. There is an educational video about the SICs that is available at the Dynasty Wealth website.

Opportunist: Please tell us more about Dynasty Wealth.

Markowski: After the JOBs Act was signed into law by President Obama in 2012, I began to conduct extensive research on crowdfunding. I believed it had the potential to become one of the world's largest industries. I researched the web's growth from 16 million users in 1996 to 350 million users in 2000. Consequently, I believed that crowdfunding would experience a similar hockey stick growth in its first five years. What I discovered was shocking: it was the share prices of those companies that provided the infrastructure for the web that multiplied by more than 10 times in five or fewer years. Yahoo's share price multiplied by more than 200 times from its 1996 IPO to its 1999 high. The share price of eBay multiplied by 36 times in the 12 months after its 1998 IPO. The share prices of hundreds of web IPOs doubled in 1999. The share price of AOL was under its IPO price at the start of 1996. AOL shares increased by 3,200 times at its 1999 high making a $10,000 investment worth $32 million.

Opportunist: That is incredible. Wouldn't you say it's déjà vu back to where your career had begun with Merrill Lynch in 1977?

Markowski: Yes, exactly. Discovering the massive wealth made from investing into web stocks when they were infants was very revealing. My understanding that those companies that would provide the infrastructure for crowdfunding would have similar potential gave me the idea to start a community. The mission of the community would be to find the companies, produce research on them and educate members so they could build a portfolio that would create dynasty wealth returns of 10 to 100 times within five years. After founding the Dynasty Wealth Investing community, I became knowledgeable about the hundreds of digital-disruptor and first-mover companies that are now emerging. We added these categories since they also have similar potential. A $10,000 investment made into digital disruptor Uber in 2010 was recently valued for $105 million. By the way, everything in the Dynasty Wealth stable has the potential to be a unicorn. We are in the business of finding baby unicorns.

Opportunist: Can you give us the names of any companies that have the potential to multiply by 10 to 100 times by 2020?

Markowski: I cannot provide you with the specific names of the companies that we have identified that have 10 times to 100 times appreciation potential. Doing so without the adequate required disclosure would be in violation of SEC Rules and Regulations. However, we are implementing a change on the Dynasty Wealth Investing website that will give the public free access to some of our companies and our research coverage on them by the end of 2015 or earlier. If your readers want immediate access they can sign up for a free trial membership, which is available at www.dynastywealthinvesting.com.

Opportunist: How big do you see the Dynasty Wealth Investing community becoming in the years ahead?

Markowski: Dynasty Wealth is projecting that it will have 60 companies by the end of 2016 and 300 by 2019.

Opportunist: Is there anything else you would like to tell our readers?

Markowski: The decade ending 2020 will be recorded by historians as the best ever for investors to have created immense and dynasty wealth. I am projecting that there will be more than 1,000 companies that multiply by at least 100 times in price over the next five years. The Dynasty Wealth website is loaded with short educational videos. I would highly recommend to all of your readers that they take the time to watch them. The next five years will be the most exciting and lucrative for investing. Prior to this period the only way that individuals had a chance to create dynasty wealth was to have been lucky enough to have lived next door to Bill Gates or Steve Jobs and to have invested into their companies in the early days.

Leslie Stone is an award-winning writer, editor and journalist with more than two decades of experience covering business, finance, real estate and lifestyle issues for newspapers, magazines and online publications. Originally from Virginia, she currently resides between Florida and Michigan. Follow Leslie on Twitter: @lescstone.

Reprinted from Opportunist magazine
www.opportunistmagazine.com