PRO

Vijay J. Marolia

Managing Partner & Chief Executive Officer: Regal Point Capital

{ INTERVIEW BY KHAI NGUYEN }

Vijay J. Marolia has over 13 years of experience in capital markets specializing in hedge fund and private equity investment strategies. He is Managing Partner and Chief Investment Officer of Regal Point Capital, a multi-strategy investment firm, which he launched in 2013. Previously, Vijay spent 8 years at Private Wealth Management at Heathrow, one of Central Florida's top wealth management firms, with over $300 million in assets under management. As Chief Investment officer, Mr. Marolia served as the firm's global macroeconomic strategist and was responsible for research and portfolio construction.

Vijay earned a Bachelor of Science degree in Finance from the University of Florida and a MBA with a concentration in Finance from Rollins College's Crummer Graduate School of Business, where he served on the Alumni Board. Vijay is frequently featured in media outlets including the Wall Street Journal, Bloomberg, Reuters, ValueWalk, Mining Weekly, Seeking Alpha, Investopedia, Fox 35 Orlando and more.

Khai Nguyen: I'm joined here today by Vijay Marolia, Managing Partner and Chief Investment Officer of Regal Point Capital. Vijay, welcome and thanks for joining us.

Vijay Marolia: Thank you for having me.

KN: Vijay, can you start by telling us about your background and how you got started in the world of professional investing.

VM: I've been fascinated by the concept of investing since I was about 5 years old. My dad took me to the bank for the first time and that sparked the conversation which led me down the rabbit hole that I am still exploring. While in college as a finance major, I was able to get my feet wet at Morgan Stanley. I realized very soon that I didn't want to be a stockbroker. I wanted to be a professional investor so I kept growing and learning until I finally became a fund manager.

Most of my actual experience running other people's money came a few years after college at one of Central Florida's premier wealth management firms. When I first joined as an analyst out of undergrad, we had less than $80 million under management, but the firm kept growing and so did my responsibilities. By the time I left in 2012, I was the youngest partner at the firm and we were managing more than $300 million in assets. That was an amazing experience for me and it helped me immensely, especially during the financial crisis when I was promoted to

I remember he was the first person who taught me about Warren Buffett, and I was hooked immediately.

Chief Investment Officer. I realized then that most of what I learned about investing in business school was impressive in theory, but dangerous in practice: markets are not efficient or rational—they are emotional just like the people that ultimately make them up. Risk cannot be defined or measured by volatility—risk is being wrong and losing money. And Wall Street will be ready to promote and sell anything it thinks people will buy—anything.

KN: Who has been the biggest influence on you as an investor?

VM: Definitely my father. Even today he still inspires me. When I think about him leaving his family, friends, and everything he knew at age 19 to come to America, it makes any of my problems seem small. I remember he was the first person who taught me about Warren Buffett, and I was hooked immediately. As I learned more, I eventually came to realize that Buffett and my father had very similar strategies, but very different playing fields. I wanted to win at both games; securities and real estate.

That's one reason why a recent influence of mine has been Bill Ackman of Pershing Square. Ackman's father was also in the real estate business. Ackman and I both manage concentrated portfolios for long-term growth and we both take short positions as a means of delivering alpha, not just hedging beta. Also, we currently share similar portfolio exposures: we are both long Fannie Mae and short Herbalife.

KN: You started Regal Point Capital in 2013. Tell us about why you decided to launch your own fund?

VM: I wanted to own a business like my father, and I knew I wanted to invest full-time. I also knew I didn't have a passion for selling products so being a broker or investment banker was ultimately out of the question. I learned that Wall Street has a very short-term mindset and I wanted to build long-term partnerships the same way Buffett and my father had done.

KN: How would you describe your investment philosophy and your strategy or approach?

VM: As deep value investors, we follow the footsteps of Benjamin Graham and Warren Buffett. So in times like today when most asset classes are at all-time highs, we want to be fearful as it seems most others are being greedy. When prices naturally start to correct and inevitably overshoot on the way down, we can apply the "greedy" mindset to put capital to work. We are always looking for situations in which emotions drive wide gaps between price and intrinsic value.

As a multi-strategy fund, we have several tools in our belt, but ultimately, we just look for value wherever we can find it. My background in global macroeconomics is extremely useful in this regard as it allows me to understand the only constant in life, which is change. Change happens at the margin, and that's why we look for major trends around the world. Trends come in all shapes and sizes, but we focus on trends that are least likely to reverse, such as demographic trends.

What really helps us in identifying the best investments is the way we look at the environment. I refer to it as the 4 lens approach, where we look at investments by analyzing the 1) fundamentals, 2) technicals, 3) sentiment, and 4) structure. Without getting too far into the weeds, I can tell you that each lens can show you something that can influence the price and/or value of the investment. Every once in awhile, all the stars align creating the kind of fat pitch we're always patiently waiting for.

KN: What differentiates RPC from the others? What's the advantage of a private fund like RPC?

VM: The most obvious advantage is that we run two funds, with the hedge fund focusing on liquid securities and the private equity fund focusing in less liquid markets like real estate. Having a background in real estate as well as capital markets is a huge advantage for us. It's important to remember that today's investors are starving for safe yield, so our ability to offer that is unique and valuable.

Also, as a newer fund, we're small enough to be quick and nimble, which allows us to do what larger funds cannot. I spent a decade studying the best private equity and hedge fund managers in the world, and a $10 billion fund is not at all uncommon. However, when a fund of that size tries to invest just 1% of its capital, that's $100 million they need to put to work. Which means they're forced to limit their targets to very large and liquid markets. However, empirical research shows that many of the best opportunities lie under Wall Street's radar, specifically in the small and micro-cap space.

Finally, our multi strategy approach doesn't pigeonhole us into specific asset classes, so when the tide turns, as it surely will, we'll be able to adapt. That prevents the damage that forced-redemptions caused, during the financial crisis and dotcom bubble. There are a ton of constraints that public fund managers have to deal with; we have no such limits.

> Also, as a newer fund, we're small enough to be quick and nimble, which allows us to do what larger funds cannot.

KN: How do you define risk and what's been your approach to mitigate it?

VM: Regal Point's definition of risk is very different from the one used by Wall Street. On Wall Street, risk is seen as volatility. At RPC, volatility can be seen as an opportunity, not a risk. To us, risk is losing money, especially when that loss is permanent in nature. But defining it is only step one. What's even more important is how you mitigate that risk and we do that in four ways: 1) investing with a margin of safety, 2) properly positioning the size of each investment, 3) keeping ample liquidity, and 4) using extreme due diligence.

I try to stay positively paranoid. That's how I describe being prepared for Armageddon, but simultaneously and systematically hunting for value. I ask myself everyday what could go wrong, how could I be wrong, and where can we lose money. Until I have an answer for that it's hard for me to sleep at night.

KN: You've been very active on Harvest and other social media platforms. What's been your approach regarding sharing investment ideas?

VM: As human beings, we are social creatures. In other words, we need each other. We know that prolonged isolation is not healthy; actually, the opposite is true. The healthiest lives tend to be those with the strongest relationships. It all makes sense because whether we're talking about markets, economics, politics, or even sports—ultimately, they're all made up of people.

We have no problem sharing our investment ideas once we do our homework. And we absolutely don't have a problem with disagreement; that is exactly what we look for. We always welcome opposing views as long as they're backed up with hard evidence. There is no room for ego in this business. When the facts change, your opinion must not be written in stone. In fact, I tell my team frequently that the best thing they can ever do for me is to prove me wrong.

It's sad that our society is so scared by failure, hence being scared about sharing ideas. What is failure? Show me someone that hasn't failed and I'll show you someone that hasn't lived. Think about it, how did you learn some of your most important lessons? Being wrong is helpful in that it provides an opportunity for learning and growth. I think Ray Dalio put it best when he posited the following: Pain + Reflection = Progress.

KN: You've been public about stocks like Fannie Mae (FNMA) and Gold Resources Corporation (GORO) and shorting popular hedge fund stocks like Herbalife (HLF). What's been happening with those companies and where do you see the opportunities?

VM: We've been saying for a while now that the Fannie Mae (FNMA) shareholder rights case is most likely heading to the Supreme Court. The "Third Amendment Sweep" issue is a touchy subject but a vital one in terms of preserving the freedom and rule of law that our Founding Fathers intended when they wrote the Constitution. The bottom line is that Treasury and the Federal Housing Finance Agency acted improperly; slowly but surely the truth is revealing itself. One of those truths is that we cannot keep our traditional mortgage environment without Fannie/Freddie. The other truth is that most, if not all, of the arguments against our thesis lack merit and/or precedence.

This is essentially a waiting game that will ultimately reward those with the requisite patience. The good news is the recent ruling by Judge Sweeney tells me that our thesis is gaining strength because of the increased awareness throughout our society about the issues. America does not want to follow in the footsteps of Greece, the world's first democratic power.

Gold Resource Corporation (GORO) is, in our opinion, by far, the cheapest mining company in the precious metals space, globally. It reported record production last year, and yet, the price recently hit a 52 week low; exemplifying perfectly that value is not the same as price. Like most precious metals miners, GORO has a high correlation with gold and silver prices. This means that even when GORO's own results are positive, their peers can (and do) drag them down. However, as value investors, that's how we make money and as Baron Rothschild said, "the time to buy is when there is blood on the streets." Well, today, the bloodiest street in capital markets is littered with beaten down shares of precious metals mining companies, and GORO looks to us like the "baby that got thrown out with the bathwater." We see this as a long term multi-bagger stock.

Herbalife (HLF) is similar to Fannie Mae in that they are both long term in nature and they both have a very large legal/political component to understanding the risk-to-reward. Any reward would be short-lived as pyramid-schemes have an inherent yet deadly flaw; the laws of mathematics guarantee their demise. Bulls will talk all day about how Herbalife has been around for more than three decades and has done business all over the world. I have two words for them: Bernie Madoff. Although Herbalife has been busy hiring an army of former regulators and lobbying current regulators aggressively, the fundamentals of the business continue to deteriorate. As you may know, we are still actively trying to bring more awareness to the truth about Herbalife's predatory behavior.

KN: Recently, there was an excellent piece from Forbes about Bill Ackman talking about his background in real estate and his vision for Howard Hughes as an investment vehicle. We know you follow Ackman, what's your opinion on his approach?

VM: I've been following Bill Ackman since back in the Gotham days and what I know is that he and his team do their homework; and they do it damn well. He's not infallible as nobody is. But it's not uncommon for him to know the details of the companies he's involved with better than the insiders, the analysts, and usually, most of the regulators.

One of the most important books an investor can read if they really want to understand the actual risks and rewards of investing is Confidence Game by Christine S. Richard, which chronicles Ackman's long, but eventually rewarding battle with the giant bond insurer MBIA. Reading the book also gives you a good understanding of the shenanigans that ultimately led to the greatest financial crisis since the Great Depression.

Ackman and I do share some things in common, for example, we both grew up with fathers that not only encouraged and inspired us, but taught us many valuable lessons about the intricacies of real estate investing. We both became fascinated with investing from an early age and we both were fortunate enough to have met and learned from some of the greatest investors in the world. Moreover, we share some of the same exposures in our funds; specifically, the short Herbalife position which I learned of through Ackman's work as well as the long Fannie Mae position. I believe we approach investing from a value framework, and we both look for a margin of safety. I think his record speaks for itself.

KN: What are the ways in which you measure success for the firm and your investors?

VM: As a fiduciary my objective is to protect and grow capital over the long term. If I do that, then the entire partnership is successful. That's why it's so important to have like-minded partners. I've seen too many newer funds take on partners that had different investment philosophies because of the pressure to raise capital. I was fortunate enough to have already established several good relationships due to my record at my previous firm, and many of my current partners are people I know well. To me, the ultimate sign of success is when I'm introduced to a new partner through a current partner.

Partners will also include those that rise internally at the firm, and so ensuring that each and every team member is growing professionally and personally is always a priority.

KN: Aside from running the hedge fund, what else are you working on?

VM: In addition to the RPC Global Growth Fund (hedge fund), we also manage a private equity fund which is called RPC Real Income Fund. The purpose of private equity structure is to provide what many, including myself, consider to be the scarcest asset on Earth, a safe yield. My background in real estate and fixed-income markets allows us to find deals that safely deliver a yield of approximately 5% while protecting and growing principal.

We are also in the beginning stages of a potential sister hedge fund; the RPC Bear Fund will focus on our short thesis and select options strategies that have worked out really well for us. It seems that some investors are looking for a hedge against their other investments, which for most people are long-only, like mutual funds and ETFs. If and when we launch the Bear Fund, it will be designed for absolute returns using only bearish investment thesis and option contracts. No leverage is needed.

But what I'm most excited and proud about are the charitable initiatives we've recently launched, which have been a goal of mine for some time. Earlier this year we hosted the inaugural Health, Wealthy, and Wise Orlando (HWWO) Charity Weekend including a golf and poker tournament. We donated money to three local non-profits whose goals are consistent with that of HWWO, which is to make our community here in Central Florida / Greater Orlando one of the top 50 best places to live in America (currently #67 as ranked by Forbes).

My experience with HWWO led me to start a brand new non-profit organization called Hedge Against Homelessness (HAH). The homeless population where I live in downtown Orlando has skyrocketed, and it doesn't seem to be slowing down. Many in the homeless community are marginally homeless and can be helped to get them back to a self-sustaining lifestyle. HAH utilizes the skill-set that we as hedge fund managers use and apply everyday (namely, squeezing the most value from all available resources) and then partner with other organizations to reverse the trends in homelessness.

"In two words: know thyself. The worst mistake is trying to be a fund manager solely for the money. The best money managers are fascinated by and passionate about the process of investing.

KN: Who would be a typical investor in your fund?

VM: A typical investor is someone who lacks time, but not money. In other words, they have goals in life other than allocating capital and so they outsource the time and energy required for that to us. This allows them to have investments actively managed that are consistent with their own philosophy, without changing their lifestyles. It's a win-win situation allowing us to do what we're good at and passionate about, while allowing our partners to enjoy their lives and gain the freedom they want.

A more traditional answer is that our typical investors include families, trusts, foundations, retirement accounts, and more. As we get closer to our three year track record, we'll be able to accept more institutional investors like pensions and sovereign wealth funds.

KN: Do you have any parting advice for someone that's looking to start a fund?

VM: In two words: know thyself. The worst mistake is trying to be a fund manager solely for the money. The best money managers are fascinated by and passionate about the process of investing. They're not chasing the quick and easy buck, if such a thing even exists.

If you don't have a passion for investing, don't do it. If you don't have a thirst for knowledge, don't do it. If you don't enjoy reading, writing, and/or debating, don't do it. And if you have thin skin, don't even think about it!

However, if you understand that winning takes practice, and you have strength in your convictions, then maybe you have a chance. If you have the courage to go against the crowd and the cognitive discipline to not be swayed by the herd mentality, then this could be a great way to enjoy a very fulfilling life. But even then, you must be willing and eager to put in the necessary time, work, and effort. And forget about time-management, you can't manage time. You can only allocate time and even that is a blessing when you think about it. For me, launching Regal Point Capital has been a dream come true! I'm doing now what I will do until my last breath.

Contact Info:

Regal Point Capital Management, LLC
Windermere Business Center
6735 Conroy Rd., Suite # 302
Orlando, FL 32835

www.regalpointcapital.com
407-394-5581