



The Bickering Needs to Stop: Exchange Income Corp.

Description

When two grown men go at it on **Twitter** with differing opinions on a company, watching from the sidelines can prove to be almost as enjoyable as watching a highly touted prize fight. Such has been the case with notable short-seller Marc Cohodes and famed journalist Terence Corcoran. Mr. Corcoran disputed the validity of allegations made by Mr. Cohodes that **Exchange Income Corporation** ([TSX:EIF](#)), a small Canadian company serving the aerospace industry, is more of a “ponzi scheme” than an operating business, with an unsustainable dividend and business model that is sure to implode.

Looking at the most recent hotly disputed company on the minds of Mr. Cohodes and Mr. Corcoran, we can see some validity to Mr. Cohodes’s comments about Exchange Income’s balance sheet. With a yield of nearly 7.5% accompanying negative free cash flow generation in four of the past five years, it appears that something will eventually need to give for the aerospace company.

While the situation for Exchange Income is, perhaps, not rosy, it is hard to believe that such an implosion is imminent, and that the numerous analysts covering the stock have miscalculated their target prices (in the mid-to-upper \$40-per-share range).

The defensive nature of the approach taken by Mr. Corcoran, one in which he continues to insinuate that those “pesky Americans” should stay out of the Canadian stock market, is not an uncommon standpoint; many analysts have taken the position that Mr. Cohodes’s anti-Canadian stand is simply unwarranted, and that the crashes and excesses of the United States are very unlikely to seep into what has traditionally been a more fiscally conservative Canadian market.

Mr. Cohodes has taken the standpoint most short-sellers do, which involves doing whatever it takes to hammer a company’s stock price, and doing it very publicly. The broad, sometimes outlandish statements made by Mr. Cohodes can reasonably be made out as borderline defamatory; Mr. Cohodes has walked down this path many times, wearing his numerous lawsuits as battle scars in the fight to “promote market efficiency.”

The thing is, most investors are simply getting tired of the bickering. While Mr. Cohodes’s track record

in picking terrible companies is impressive, as is Mr. Corcoran's ability to generate widespread feelings of moral outrage. At some point, investors will simply disregard these two polarizing forces and focus on the task at hand: valuing the equity portion of an operating business.

In that spirit, letting the numbers speak for themselves is one of the best ways investors can drown out the noise and focus on achieving an objective valuation for companies such as Exchange Income. In this battle, it may be the only way.

Stay Foolish, my friends.

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TICKERS GLOBAL

1. TSX:EIF (Exchange Income Corporation)

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