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Podcast Notes: Judd Arnold, Hunting For Distress

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This week, I share my *Podcast Notes* from my conversation with Judd Arnold of Lake Cornelia Commentary. I've done a few episodes with Judd now, and each time I leave a bit smarter with a differentiated way of identifying interesting investment ideas.

If I had to frame Judd's investment philosophy in one phrase, it would be **Hunting For Distressed Multi-Baggers.** You'll see this throughout these *Podcast Notes* … the utterly horrendous charts on some of these on the way down. I guess that's where the opportunity lies?

Judd is great for my process because it helps me get comfortable with horrible long-term charts (versus the cushy breakouts I love buying).

This report discusses:

- ➢ Judd's investment process
- ➢ Specific trades to frame the investment process
- ➢ How to steal Judd's process

I hope you enjoy this report!

Judd's Investment Process

Judd is not a "buy cheap and wait" value investor. He is not a growth guy either. He hunts for a very specific setup: a business that has been left for dead by the market, where the fundamentals are just starting to inflect, and where the setup has taken years to compose itself. What follows is my attempt to distill the mental models he shared, before we walk through the case studies he used to illustrate them.

1. Inflections matter more than cheapness

The single biggest evolution in Judd's process is this: *he stopped anchoring on optical cheapness and started hunting for earnings inflections.* Value stocks that stay cheap don't make you money. Value stocks whose earnings *change* do. This reminds me of Druckenmiller's most famous quote that, "*you should always be looking out 18-24 months and focus on what could change the stock's price in that time frame.*"

In other words, don't invest in the present. Always invest in the future.

His example: Apollo's purchase of Lyondell debt in the financial crisis. They bought it at zero-to-negative EBITDA. Within eighteen months the shale revolution had blown the Brent-Henry Hub spread wide open, and the position produced over $10 billion in profits. That's an inflection trade — not a P/E arbitrage.

> *"Too many people focus on 'I bought something really cheap.' It doesn't matter. The ones that make the most money are the ones where the earnings inflected. That's the driver — not that you sculpted somebody down half a P/E turn."*

I feel that way about Idaho Strategic (IDR) today.

Today, IDR is an underground gold miner producing ~12K+ oz/year. But that's not why I invest in IDR. I invest because I see a 20K+ oz/year producer that will expand its REE land package, JV with larger REE companies, and expand its Niagara copper/silver project to eventually become a polymetallic producer in a Tier-1 jurisdiction worth billions of dollars.

2. Buy value, sell growth

Judd wants to be long a value situation **that is quietly re-rating into a growth story**. Great businesses almost never look optically cheap in foresight — they look cheap only in hindsight.

Basically, he wants to buy a "value" stock that hopefully he can sell as it grows into a "growth" stock.

3. Setups take time – usually years

Tidewater (TDW) is the cleanest example.

The seeds of that trade were planted in 2006-2007 with the offshore capex boom. Then came the OPEC bust of November 2014. Then six years of investors trying to catch a falling knife across shipping and offshore — 2015, '16, '17, '18, '19, '20, '21. Every one of them could point to ships or rigs trading at 20% of replacement cost. None of it mattered.

The trade wasn't investable until demand came back. Judd's point: t**he discount is a necessary condition, but the demand inflection is the sufficient one**, and it often takes a decade for the two to line up.

4. Price is truth

This is the one that killed a lot of the oil bulls in 2026. Judd's rule, picked up from his King Street PM in the 2009 housing debate: you can be contrarian on a macro view in the beginning, but every day the price refuses to confirm your thesis, the price becomes more true and your view becomes less.

Especially in something as liquid as oil, sitting at $70 through the worst possible supply-side shock (Israel-Iran war), you have to ask the harder question: is my spreadsheet wrong, or is the price wrong?

> *"You can only be a contrarian on a macro and overrule price action in the beginning. As time progresses, the price is right."*

5. Explain the price today

This came out of his distressed training at King Street and Anchorage. Before you take a view, you have to be able to explain why the security trades where it trades today.

If your model gets you to seventy cents and the bond is at ninety-five, you're not off by a couple of ticks — you're off by orders of magnitude, and you probably don't understand what you're looking at.

This is the discipline that keeps you from confusing "the market is wrong" with "I'm missing something."

6. Own things people care about or that people will care about

One of the mistakes Judd repeated after going independent in 2020 was being "too cute by half" — finding names that were illiquid and off the radar, then waging a war to get anyone to notice. The problem with obscure microcaps isn't that you can't make money; it's that you're fighting for flows in a name that has none.

He now wants ideas where the story is legible to a wider audience, where the liquidity is there or close to there, and where a positive earnings print can actually get rewarded because there are marginal buyers waiting.

7. Read the comp plan

This one is underrated and hugely powerful in special situations.

When a distressed name hires a new CEO, the performance stock plan is the single most honest document the company will ever publish. It tells you what management genuinely believes is achievable.

AGL's new CEO comp plan is the case study (more on that below) but the general framework is: Tier 1 and Tier 2 are supposed to be gimmes. Tier 3 is supposed to be hard. If you see all three struck at absurd upside relative to the current stock, and you know the CEO has visibility into the numbers before the plan was signed, that is a signal.

8. Sponsor alignment is a required checkbox

Who owns the equity above you matters. In Leslie's (LESL), a Chicago mutual fund, holds 40% and has every incentive to grind out a recovery. In AGL, CD&R still owns 25% post-IPO and has skin in the game.

Judd's recent Open Lending trade is the cautionary tale in the other direction. The sponsor took the pain, rode the stock from $40 down to $0.80 and back to $2, then sold the company at $3.15, giving away all the upside just to return capital to LPs. The lesson: **know whose incentive curve you're riding.**

9. Reflexivity in levered stubs

For heavily indebted equities where the debt trades at a discount, reflexivity is the whole game. Higher equity prices → easier refi → more distance from bankruptcy → the debt re-rates from $0.40 back toward par → the equity gets even more optionality.

It also makes the toolkit larger — the company can raise equity to tender the debt at a discount, run a coercive exchange, or move collateral out of the credit box to create leverage against the existing lenders. Every ten cents of permanent discount extracted from the debt is real value that accrues to the equity.

10. The number one cure for a slump is the next trade

Judd has become the guy his friends call when they're in a rough stretch. His answer is always the same: **the cure is finding the next trade and having the confidence that there will be one.**

That confidence is a byproduct of the process. If you know how you're going to find the next inflection, you don't need to marry the one that just went against you.

Trade Examples: Energy, Used Cars, & Pools

Energy: Too Hard Pile

Start with what he's avoiding. Two months ago Judd got aggressively bearish on energy in the middle of the Israel-Iran conflict.

His logic was simple: the price action refused to confirm the supply-shock narrative. Oil went to about $110 on the peak of the war and immediately faded. If you can't hold the tape on a genuine geopolitical crisis, the tape is telling you something about the underlying supply picture.

The bearish case from here is a wall of supply. Venezuela is ramping from roughly one million barrels a day toward four within three years, with U.S. dollar sanctions on Iranian production now dropped. The UAE has exited OPEC and is building bypass pipelines to get its capacity closer to five and a half million barrels per day.

Iraq is rumored to be next out. Iran, having lost "Iran War One" (Judd's phrase; he thinks "Iran War Two" is coming because we're leaving them in a Versailles-like posture), will pump aggressively in the interim. Aggregate that up and OPEC-plus alone could add seven-to-nine million barrels per day of growth on a base of roughly 105 million.

That is the most bearish thing possible for non-OPEC producers and, critically, for long-duration offshore capex.

The one interesting corner — U.S. LNG

The lone bull case Judd would entertain sits in **U.S. LNG exporters.** Qatar is about 20% of global export capacity and the effective base load for Japan, Korea, and broader Asia. If those buyers need redundancy — which, post-Hormuz risk, they clearly do — the only meaningful place to get it is the United States.

That biases you toward the LNG names (his shorthand: BG, Cheniere, potentially NextDecade). The counter: Qatar likely comes back online faster than expected, and if oil is heading to $50, even the best house on a bad block is a bad house. His base case is to sit this cycle out and revisit if oil bases around $50.

> *"Oil's going down, interest rates are going down, and those two things are very correlated. Boy, is that all of a sudden the most awesome thing for literally everything except energy and commodities."*

Autos and Used Cars – The purest COVID normalization trade

This is where the framework earns its keep. The Mannheim Used Vehicle Index went up about 60% between 2020 and late 2021 as de-urbanization, chip shortages, and stimulus collided. Then it fell 25% cumulatively over the next three years — a disaster for anyone underwriting auto ABS or leases based on normal depreciation curves.

The average age of a vehicle on U.S. roads went from 8 years pre-COVID to 12 years today. People kept their cars because they had to, and because interest rates made trading up impossible.

The subprime blow-up was mechanical. In a good economy, good credits prepay and bad credits don't default — lenders make money on the middle.

In a bad economy, good credits still don't prepay, so you at least collect five years of 12-15% interest, offsetting the defaults. COVID broke that: stimulus let good borrowers prepay, and rate hikes plus collapsing collateral values crushed the tail. That killed Upstart, wounded Affirm, and gutted the entire subprime auto complex.

The lease-return signal

The cleanest data point Judd cites is buried in Ford Motor Credit's filings: the percentage of lessees returning the car at the end of the lease. Pre-COVID it was a very stable 80%. At the depth of COVID it collapsed to 12% — nobody returned a car because they could buy the residual out and immediately mark it up.

It's now back to 50% and climbing. Every incremental point back toward 80% is fuel for the entire ecosystem: more velocity through auction sites, more turnover through dealer inventory, more chances for finance companies to earn a spread. Mannheim just went positive year-over-year for the first time in three years.

Here's a list of names to play this theme (see below).

Ticker	*What it is*	*Judd's read*
KMX (CarMax)	Used-car retailer + financing arm	Just reported strong auto-loan-book numbers. Cleanest way to play the trade.
CVNA (Carvana)	Online used-car retailer	Higher velocity of cars flowing through the system is a direct tailwind.
LAD / AN	Franchise dealer roll-ups (Lithia, AutoNation)	Normalizing residuals + finance income. Straightforward long.
ALLY	Auto-lever bank	Whole book benefits from Mannheim inflecting positive.
CAR (Avis)	Rental-fleet operator	3x peak, 10x forward, equitized balance sheet, plus $700M Pentwater settlement. Judd's preferred way to play rental.
HTZ	Rental — avoid	Too much debt. Fixed charges went from $950M to $1.7B; equity value already monetized by the cap stack.
CRMT	America's Car-Mart — avoid	Subprime, closed 55 of 150 dealerships. Likely a liquidation. Judd doesn't do liquidations.
CPRT (Copart)	Salvage auto auctions — compounder-bro name	Down 50% from highs on the same dynamic. Higher lease-return rates = more cars through auction. “Never been cheaper.”

Pools – LESL and POOL

Leslie's Poolmart (LESL) is Judd's marquee reflexivity trade right now. The stock IPO'd around a split-adjusted $1,000 per share in 2021 and bottomed near $1 before the recent earnings print took it toward $9.

The setup that matters is in the cap stack: roughly $750M of term loan against ten million shares of equity. The term loan trades at $0.40. That means the market is pricing bankruptcy, but the covenants are “Swiss cheese” — collateral can be pulled out of the box, new debt layered in, and coercive exchanges are on the table. Kirkland & Ellis and a restructuring advisor are already engaged.

The reflexivity math

Every ten cents of permanent discount the equity can extract from the term loan is $75M of value — or $7.50 per share on a 10M-share count.

That's essentially the entire current share price. The base-case operating story is decent on its own: store count has been rationalized from a surge back to the pre-COVID footprint of ~950 units, 90% of U.S. pools sit within ten miles of a Leslie's location, and switching behavior is low once a homeowner picks a provider.

New management (CFO in particular sounds credible after Judd's call) is focused on fixing the pool-chemical over-earning problem — EBITDA margins compressed from 20% to 5% — while re-leaning into the sticky, subscription-like service and equipment side of the business.

Numbers to hold in your head

Metric	*2019 (pre-COVID)*	*2022 (peak)*	*2025 guide*	*Path to bull case*
Revenue	~$930M	$1.4B	$1.1B	$1.5B
EBITDA	$160M	$275M	$70M	$175M+
Store count	950	1,000+	950 (rationalized)	950
Term loan	—	Par	$0.40	$0.65–$0.70+
Equity value	—	IPO peak	$9/share	$30 base / $150 bull

Why Pool Corp (POOL) works on the same story

Every argument for Leslie's works for Pool Corp as well, just further up the value chain. The number of U.S. pools has grown roughly 1% per year since the financial crisis — except in 2021, when de-urbanization briefly pushed it to 3-4%.

Everyone in the value chain surged capacity to meet that demand right at the peak, and then the demand went away. Pool Corp's gross margin has been remarkably stable at 30%; the damage was in the operating margin, where SG&A was built for a bigger business. That gets absorbed as comps ease. Chart looks eerily similar to LESL, which is exactly what you want to see — the story has to make sense for the entire comp set, not just the levered stub.

> *"What am I saying? We just talked through autos. Now we talk about pools. The story has to make sense for the entire comp set. Otherwise you just have a fixed-point trade."*

Value-Based Healthcare – AGL and TOI

The most instructive trade in Judd's book right now is Agilon Health (AGL). It's the tenth-bagger in two-and-a-half months that most people missed because the value-based-care space had been a wasteland for five years.

The macro setup is textbook COVID normalization. Pre-COVID, healthcare cost inflation ran 4-6% per year. 2020 came in at effectively zero — nobody went to the hospital, medical loss ratios collapsed from ~90% to ~70%, and every value-based-care sponsor rushed to IPO on one great year of print.

Then 2021 arrived: an elderly population that hadn't been screened for a year came flooding back, healthcare inflation spiked to 7-9%, and rate resets — which were still reflecting 2020 — lit the whole sector on fire. Oak Street was rescued by CVS. Cano Health went bankrupt. Care Max is gone. One Medical got absorbed by Amazon.

What survived, and why it matters

AGL survived by renegotiating with its payer partners. The pitch was blunt: give me rate and better contract structure or I go bankrupt.

What they got back was a fundamentally better business — carved out of the volatile line items (Part D oncology drugs, catastrophic risk), and acknowledged by Humana and United as necessary for their star ratings and MLR reduction.

Every point of MLR AGL takes out is worth hundreds of basis points to a payer that gets a 500-bp rate uplift for a 4- or 5-star Medicare Advantage plan.

The comp plan tell

This is where the trade got sized up. AGL had been running with an executive chairman and CFO after a CEO transition. When they finally hired a new CEO with the stock at ~$25, his performance stock plan vested at $50, $100, and $150.

Judd's reaction — delivered on air with genuine incredulity — was that these people had visibility into the coming quarter's numbers before they signed the plan. Tier 1 is supposed to be a gimme, and Tier 1 required a stock double. That's not a comp plan; it's a signed confession.

> *"You got the CEO comp before you got first quarter earnings. And I'm like… you knew the CEO had the earnings. What is that negotiation like? I was screaming at people. I was like, we won."*

The 10x math

At the bottom, Judd was buying AGL at an EV of roughly $160M against $5.5B in revenue. First position at $8, sized up in the low $20s after the CEO comp plan hit the wire, and last add near $55.

The bull case assumes they get to a 10% margin on eventual $15B of revenue — $1.5B of EBITDA at CapEx-free economics — which supports a $15B market cap. Judd sees a plausible path back to and beyond the original IPO valuation of $11B.

Everything about this setup mattered: the sponsor (CD&R still holds 25%), the contract restructuring reducing earnings volatility, the rate cycle, and the comp plan tell.

TOI – the biggest position, the hardest hold

The Oncology Institute (TOI) is Judd's largest position and probably the best absolute return of his career. He originally got involved in 2023, exited in early 2024 when he didn't like the direction, and came back in late 2024 buying stock at $0.25 and building the position out around $0.70. It's now above $5, with a plausible path to $30.

The business is what he calls an oncology drug dealer attached to oncology clinics — the real money is in oral oncology dispensing, and that pharmacy line is growing 40% per year while the whole company grows roughly 30%. He'd be the first to tell you the position is illiquid and painful to hold; between mid-2024 and spring 2026 the stock spent over a year rangebound between $3 and $4.75, bottoming at $2.45 during the war.

But it's the archetype of the setup he now hunts — a business people had written off, quietly compounding revenue at 30-40%, in a space with a sponsor tell (management, CD&R-style discipline) and genuine terminal-value optionality.

What Judd would buy today – the two-year holds

The core product on his Lake Cornelia Commentary Substack is what he calls the *Two-Year Holds List*, a $50M portfolio he's willing to build and not touch for two years, with a hurdle rate of 50%+ over that window.

The list is deliberately structured so that the names have to be big enough and liquid enough that liquidity is not the source of return. Two names he called out on the podcast:

Navios (NMM/NM) — shipping conglomerate at 50% of NAV

Angeliki Frangou's shipping conglomerate trades at roughly half of net asset value. The setup rhymes with everything else in Judd's book — shipping had a massive overbuild that took years to work off, and demand is now catching up.

Because Frangou is one of the few operators still ordering new builds, secondhand vessel values are elevated: she's selling 20-year-old ships mid-special-survey for 70% of new-build cost and recycling the capital. At $70 per share, the cycle math gets him $13/share of cash flow this year and $25-30 of earnings power in a real cycle. He models a path toward $250.

Apollo (APO) — the Berkshire path

Apollo is Judd's way to play private-credit distress at scale. At roughly $125 today, the math is roughly $8 of Athene earnings plus another $8-9 from the fee-related business — call it a $16 earner.

Forty percent of Apollo's AUM is now captive from Athene and climbing. The thesis is that at some point Apollo stops raising traditional private-equity funds and starts principally investing its own balance sheet into its distressed deals, the Berkshire arc. Judd sees a path to $250 without heroics.

Four Lessons To Take From The Podcast

If I had to compress this episode into the four things I want MO members to walk away with, it would be these.

1. **Cheap isn't the trade. The inflection is.** Every one of Judd's multi-baggers (TOI, AGL, LESL, TDW) has an identifiable moment where the fundamentals stopped

getting worse. That's the only thing that matters. Cheap without inflection is a value trap.

2. **Setups take years.** Do not underestimate how long the world takes to clear an excess. Offshore energy took a full decade. COVID has taken five years and is only now producing clean prints. If you're staring at a screen wondering when the next left-for-dead sector is going to matter, be patient — and be ready when demand shows up.
3. **Read the artifacts.** Comp plans, term-loan pricing, sponsor 13Gs, residual-value curves buried in a financing subsidiary's disclosures. The market is efficient at what it looks at, and inefficient at what it doesn't. Judd's edge is not smarter models; it's looking at the documents everyone else skims.
4. **Own things people can care about.** This is the hardest one to internalize as a value investor because the instinct is to hunt where no one is looking. Judd's revised view is that off-the-run illiquidity is a tax, not an edge. Find the setups where you're early to a story that has an eventual audience, not the ones where you have to spend a year explaining why anyone should care.

How To Steal Judd's Process

This is my attempt to turn Judd's framework into something you can actually run inside your own workflow.

First, here are a few screens to identify Judd-like setups.

Screen / source	*What you're looking for*	*Frequency*
Koyfin "Left for Dead" screen	3Y RS in bottom quartile, 1M RS above 75th percentile — beaten names showing signs of life	Weekly
Cheap vs. own history screen	Names trading at deep discounts to their own historical multiples, especially post-IPO wreckage classes	Weekly
Post-IPO 2021 wreckage list	Look for sponsor still on the register (25%+) and a management change or new comp plan in the last 12 months	Monthly
Distressed debt tape	Term loans trading 40-70 cents while equity still trades — reflexivity setups	Ongoing
Judd's Substack — Lake Cornelia Commentary	The Two-Year Holds List and his weekly write-ups. $200/year. Worth it.	Weekly

The pre-buy checklist

Before sizing anything up, Judd's process implies working through the following questions. If you can't answer them, you're not ready to buy.

Can I explain the price today? Walk the cap stack. If the bond is at $0.95 and your model says $0.70, you don't understand the security. Same for equity: if you think it's a $30 stock and it's at $9, why does the market disagree with you? Answer that first.

Where is the inflection? Not "is it cheap" — is something about the earnings, the demand curve, or the capital structure genuinely changing right now? If the answer is "just cheap," pass.

Does the story work for the whole comp set? If LESL is a good idea, POOL should also look good. If AGL works, EVH should also be interesting. If it doesn't rhyme across the peers, you probably have a fixed-point trade, not a thematic one.

Who owns the equity above me? Check the 13Gs and DEF 14As. Is there a sponsor still on the register with genuine skin in the game? Or is there a sponsor about to dump and run (Open Lending)? This is a binary go/no-go filter.

What does the comp plan say? Especially for a post-distress or post-CEO-hire situation. Pull the PSU/RSU strike prices and IRR hurdles. If Tier 1 requires a double, management is telling you what they believe. Read it.

Is the price action confirming or disconfirming? If your macro view has been in place for a month and the tape refuses to reward it, you are probably wrong. The longer the price stays put, the more true it becomes. Weeks of disconfirmation = time to update.

Do people care — or will they? How liquid is this name? Who are the marginal buyers when the print hits? If the answer is "nobody, because nobody's heard of it," you will spend two years alone on the trade even if you're right. Move one rung up in market cap or coverage.

Position management

Size on conviction, not on confidence. Judd started AGL at $8 with a normal position. He didn't max size until the CEO comp plan hit, the piece of information that took his conviction from 50/50 to essentially 100%. Wait for the tell before you swing.

Trade the reflexivity. On levered stubs, higher stock prices genuinely improve the fundamentals (refi optionality, discount extraction from lenders). Don't be afraid to add on strength if the debt is also re-rating.

Have a next-card view. Judd's LESL framing: "I don't know how the two-year story plays out, but I know the next card — this quarter's print — is likely good." Have that view for every position. It keeps you honest about what you're actually being paid for right now.

Let losers go. The cure for the last trade is the next trade. Judd's discipline: when a name goes against you and the price action isn't confirming, you don't need to marry it. There is always another trade.

I hope you guys enjoyed this report. I'm having a ton of fun distilling my podcasts into actionable reports, like these, to improve my process. I hope it does the same for you.