THE TOP THREE SPACS TO BUY

AND HOW TO SPOT THEM IN A CROWDED MARKET

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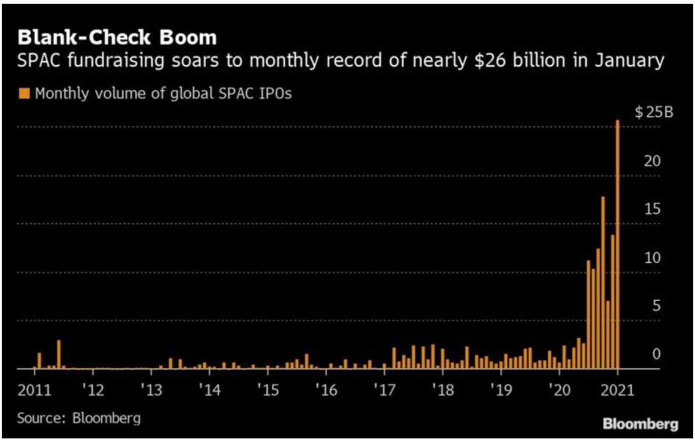
SPACs are the brand-new kind of IPO, and 2020 was a breakout year for this under-the-radar way for companies to go public. This year is going to be no different with over 100 SPACs going public in the first month of the year, raising a record $26 billion. That is just a single month, and that means billions more are going into bringing private companies public. Not only that, but we also have hundreds of SPACs sitting on billions of dollars of capital ready to deploy.



The best part is we don't have to wait for investment banks to inflate prices and miss out on all the early gains. Through a SPAC, you can get in before the company is brought public.

For example, you could have invested in **Virgin Galactic Holdings Inc.** (**Nasdaq:SPCE**) when it was trading under $10, and now it is trading over 300% higher. Same with **DraftKings Inc.** (**DKNG**), which is up almost 600%.

Now, it makes sense that everyone is talking about these special purpose acquisition companies, given the large gains some have produced. You can find recommendations on SPACs to buy all over the internet with people describing this market as a once-in-a-lifetime opportunity.

But SPACs themselves aren't new. Only their popularity is.

If you're wondering why SPACs have suddenly become a popular choice for bringing private companies public, or what's different about a SPAC than a regular stock, or most importantly, what the best SPACs to buy are, then you've come to the right place.

We're going to answer all your questions about SPACs to help you make SPAC investing profitable…

What Are SPACs, and Why Are They Popular?

Let's take a second to review what a SPAC is and how they work. SPACs are "blank check" companies. A sponsor forms a SPAC and raises money via a regular IPO. The intent is to use the money to buy another business. The sponsor may specify a particular industry or sector they are looking to enter, but that's not always the case.

When the stock first hits public markets, you will notice a "U" at the end of the ticker symbol. This stands for units, and it is what

IPO investors receive, which consists of one share of common stock and a portion of a warrant.

The warrant is sort of like a call option issued directly by the company, so instead of a contract to purchase existing shares from the issuer, it's a contract that states that the company will issue new shares and sell them to you at a fixed price if you exercise it.

Sometime after the IPO, the common shares and warrants will trade separately, and generally, the common stock will start trading around $10 a share.

If you purchase the units, they will separate after 52 days of trading in most offerings.

The sponsor has a fixed time frame, usually 18 months or two years, to close a deal. If no deal is closed, everybody gets their money back. Until a deal is done, the money is kept in a trust invested in treasury bills.

If they make a deal and you as a shareholder do not like the deal, you can vote to have your cash returned to you. This can only be done before the deal is officially closed.

That sounds like a great deal for investors so far. But things get a little trickier from here.

As an investor, you need to understand right out of the gate that the big winner in a SPAC deal is the sponsor. SPAC sponsors typically receive 20% of the common equity in the SPAC for an investment of approximately 3% to 4% of the IPO proceeds.

In a $250 million SPAC deal, sponsors could put up as little as $7 million themselves but end up in control of $50 million worth of stock.

That's a massive payday for the sponsor if the deal goes well, so it's no surprise to see a lot of big-name investors sponsoring SPACs all of a sudden. This also means they are trying to make the best deal for you.

Last year, we saw a lot of celebrity SPACs hit the market. Sam Zell, the legendary real estate and equity investor out of Chicago, did a SPAC offering called **Equity Distribution Acquisition Corp.** (**NYSE:EQD**).

Bill Ackman of Pershing Square raised the largest SPAC so far in **Pershing Square Tontine Holdings Ltd.** (**NYSE:PSTH**). Billy Beane of *Moneyball* fame has a SPAC looking to buy into a sports team or business.

A lot of technology and private equity industry executives have become SPAC sponsors as well.

Former Facebook executive and professional poker player Chamath Palihapitiya has become a SPAC celebrity. His firm Social Capital had a huge hit when their first SPAC bought **Virgin Galactic Holdings Inc.** (**Nasdaq:SPCE**) to the market via a merger. The stock has tripled from the original IPO price of the SPAC.

Social Capital has gone on to raise several more SPACs that have been well received by investors.

Big names like Lucid Motors, an up-and-coming Tesla competitor, also went public via SPAC and saw its stock rise over 400% before the deal was even announced.

So why not buy the latest big-name SPAC and wait for the money to roll in?

Well, not every SPAC is a winner. And paying a premium to get into them can be a big mistake.

How to Make SPAC Investing Profitable

There is a way to make money in SPACs. Paying $25 a share for Palihapitiya's **Social Capital Hedosophia Holdings Corp. V** (**NYSE:IPOE**) may work out, but by buying at more than double the IPO price, you're starting at a disadvantage, as many SPACs end up trading down shortly after a target is announced.

Consider what you are saying when you buy a SPAC at a 30% or 40% premium over the trust value. Your purchase says that you believe the sponsor is so good that he creates 30% or 40% more value in the unknown target company just by purchasing it.

Let's say Warren Buffett or Jeff Bezos decided to buy a company for $50 a share sometime this year. That would get a lot of investors' attentions. But would you then be willing to pay $75 or $100 a share for that same stock if they sold the company the next day?

Probably not, but that is what you are doing when you pay a large premium to the trust value on a SPAC.

But there is a way to make a lot of money with SPACs by playing it smart.

One way is buying SPAC IPOs and then selling the warrants when investors can trade them independently of the shares, giving you a discount on the trust value. If the SPAC makes a deal and the stock pops, that is fantastic. You can sell at a higher price.

If the stock does not pop on a deal, then you can redeem your shares and get your $10 back and bank a profit on the sale of the warrants.

The right way to invest in SPACs can be ridiculously profitable and is as close to risk-free investing as you will ever find in the world of finance.

The problem right now is finding SPACs trading near trust value, given how fast this market is moving. This is why we want to help you identify targets early. With hundreds of pre-IPO SPACs getting ready to go public, we want to help you find the best SPACs to target.

At ***Strategic Tech Investor***, every week, we will share with you what we are watching and where we want to invest, whether it's pre-IPO, pre-DA (deal announcement), or after DA where we will break down what we like in the pitch deck.

Here Are Some of the Best Pre-IPO SPACs to Watch For...

When SPACs go public, you have no clue what company may be purchased. You are betting on the jockey.

And one of the better jockeys in all of finance filed its S-1 form with the SEC recently, announcing a new SPAC offering…

KKR Acquisitions Holdings I Corp. (Planning to List as NYSE:KAHCU)

KKR & Co. Inc. (**NYSE:KKR**), or Kohlberg Kravis and Roberts, is one of the oldest and most successful private equity firms in history. Founded back in 1976, just before the buyout boom of the 1980s began, KKR has earned an average internal rate of return on its private equity investors of 25.9%, according to company officials.

I have to assume they know a little bit about buying businesses.

The CEO of this $1 billion SPAC is going to be Glenn Murphy. If the name is at all familiar to you, it's because he is the chair of the board of directors of **Lululemon Athletica Inc.** (**Nasdaq:LULU**), the popular athletic apparel company.

He was also the CEO of the GAP from 2007 to 2014. Before that, he was chairman and CEO of Shoppers Drug Mart, Canada's largest health and beauty brand.

In 2015, he founded FIS Holdings to invest in consumer companies. It is a high-impact firm that engages with management to help improve the business. In addition to Lululemon, the firm has investments in Aimbridge Hospitality, Serta Simmons Bedding, Whole Foods Market, and Bloomin' Brands.

I have to assume that he knows something about running a company.

Two KKR partners will be on the board with Mr. Murphy. Senior Advisory Partner Paul Raether will be a director. He has been with KKR since 1980 and has worked on some of the biggest deals the private equity firm has done over the last 40 years.

U.S. Consumer Economist and Managing Director Paula Roberts will also be a director. She has been with KKR since 2017 and leads macro real estate investment research. She also partners with real estate, consumer private equity, and credit deal teams.

If we are going to be betting on a SPAC's leadership to get a great deal done, I like our chances with this team running the show.

If you can get IPO shares in these companies from your broker, you will probably want to do that.

If you cannot get IPO shares, try to buy the units right around the offering price as soon as trading begins.

The units, which consist of one share and one-third of a warrant, will trade with the symbol **KAHCU** after the IPO.

As is the case with most SPACs, the KKR team has left themselves a lot of options when it comes to what kind of company they will buy. With Mr. Murphy on board, it is safe to say it will be part of the consumer segment.

MSD Acquisition Corp. (Planning to List as Nasdaq:MSDAU)

Like the KKR SPAC, management is very important. This is why I'm targeting MSD Acquisition Corp., whose units will start trading as MSDAU. The new SPAC is aiming to sell 50 million units at $10 each, raising $500 million.

The team is impressive, starting with one of the most recognizable names in tech as its strategic advisor. Michael Dell is the founder and CEO of Dell Technologies and MSD Capital, his private investment firm. We are talking about the person who created one of the largest PC brands in the world.

The management team is made up of MSD Partners management, who all have a significant amount of banking experience. Gregg Lemkau, who is serving as the CEO, spent 28 years at Goldman Sachs, where he was most recently co-head of the Investment Banking Division, and John Cardoso, who is serving as the CFO, was the Managing Director at Davidson Kempner Capital Management and director at Clearwater Capital Partners.

They also have a great set of directors who have worked with some of the biggest tech companies in the world. James Breyer is the founder and CEO of Breyer Capital and has served on the board of directors of The Blackstone Group, Twenty-First Century Fox, Facebook, Etsy, Dell, and Walmart. Edith Cooper, the co-founder of Medley, served on the board of Etsy and Slack Technologies. Lastly, Barry McCarthy is a venture partner at Technology Crossover Ventures and is currently on the board at Spotify Technology, for which he previously served as the CFO.

This all-star team is one I'm watching closely, and while they have not selected a targeted industry, the company plans to focus on businesses in high-growth sectors, with large and growing end markets, superior unit economics, and sustainable competitive advantages.

Forest Road Acquisition Corp. II (Planning to List as NYSE:FRXBU)

A team of former Walt Disney Co. executives are at it again with NBA legend Shaquille O'Neal in a new SPAC with a trust value of $300 million.

You may recognize this name from their first SPAC, which recently announced a merger with Beachbody and saw their stock pop over 40% in a matter of days.

The SPAC's management includes three former Disney executives. Thomas Staggs and Kevin Mayer will be serving as the co-CEOs. Mr. Staggs was the CFO at Disney from 1998 to 2010, and during his tenure, he led Disney through the acquisitions of ABC, Pixar, and Marvel Entertainment. This is the kind of person you want looking at acquisitions. He also served as the chairman of Walt Disney Parks and Resorts.

The other co-CEO is Kevin Mayer, who was the EVP of the Disney Internet Group. This included ESPN.com and Disney+, for which he helped lead the strategy.

Shaquille O'Neal is also serving as a strategic advisor, and while you may think of him as just an athlete, he is also a strategic investor. He invested in Google prior to its IPO and Ring prior to its sale to Amazon. He also owns multiple franchises, including Auntie Anne's and Papa John's Pizza.

With a management team like that, this is one SPAC I want to keep on our radar.

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