MarketWatch

Opinion: As an investor I'm wary of the Trump SPAC

By Louis Navellier   Oct. 25, 2021

5 reasons to be cautious about chasing Digital World Acquisition and Phunware stock

Every time I have been to Mar-a-Lago, Donald Trump has been a gracious host to my family, and we have wonderful memories of our times there. Further, the U.S. economy under President Trump was clearly better than it is today. All you have to do is check food and gasoline prices. I expect that Donald Trump will run for president in 2024 and that his supporters will come out in droves, even more so than in 2020.

Accordingly, it came as little surprise to me that Digital World Acquisition exploded after it announced a deal with an entity called Trump Media & Technology Group. Obviously, a 1,274.7% gain in just two days is unprecedented and a sign that Trump's supporters believe that his new social-media platform will be a big success.

The other company that went parabolic, surging 1,289.5%, was Phunware Inc., which had a $3 million contract with Trump's re-election campaign in 2020.

While I support Donald Trump and have confidence in his abilities, I am less certain that his brand will translate into stock-market successes at this stage.

Remember, enthusiasm is no substitute for fundamentals, and both companies, Trump Media & Technology Group and Phunware, are short on them.

Here are some salient facts that investors should heed.

First, in the case of the DWAC deal, the transaction is not complete. It's simply been announced. Wall Street is littered with deals that never happened. Aetna never merged with Humana, T-Mobile got away from AT&T, and GE's $60 billion run at Honeywell fell apart.
Could Trump Media & Technology and its TRUTH app fail to reach an agreement with Digital World Acquisition Corp.? In a word, yes.

Second, there's no earnings here to adequately value either company on. Sometimes the most fundamental tenet of stock-market investing gets lost in the shuffle. That is, the markets run on earnings. And, in the absence of earnings, sometimes, but not always, financial forecasts are used as a proxy. In the case of the proposed DWAC merger, there are neither earnings *nor* forecasts for investors to hang their hat on. And, in the case of PHUN, the company has never produced a profit.

Third, while PHUN might benefit from a 2024 bid by Trump, DWAC could be stalled by a run, and would face, literally, unprecedented challenges if Trump won the presidency. In the words of Donald Rumsfeld, there is an abundance of known unknowns.

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Fourth, the $293 million that DWAC will have at its disposal once a merger is consummated is an impressive number, but it is ultimately relegated to David-and-Goliath proportions compared with the billions and billions in cash sitting on the balance sheets of would-be competitors Twitter TWTR and Facebook.

Finally, investors should keep in mind that hedge funds are gonna hedge. The hedge funds behind Digital World Acquisition Corp., namely D.E. Shaw, Saba Capital Management, Highbridge Capital Management and Palm Beach, Fla.–based Lighthouse Investment Partners will not be able to help themselves, and I guarantee you that they will be selling stock as soon as the restrictions on their Digital World Acquisition Corp. shares are lifted.

Let's face it; Where else can you make over 1,000% for your hedge-fund clients this quickly? And, even if they could help themselves, their fiduciary duty to these clients makes a flood of new shares onto the market a preordained event.

Wall Street is a manic crowd, and this mania was on full display with Digital World Acquisition Corp. and Phunware last week. If the supposedly smart money, like that of D.E. Shaw, Saba Capital Management, Highbridge Capital Management and Lighthouse Investment Partners, were to abandon DWAC, I recommend that you stay out of their way and avoid both DWAC and PHUN for now.