

# Weekly Restaurant Special Report: Interview With Dan Weiskopf

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About: [USCF Restaurant Leaders ETF \(MENU\)](#), Includes: [AMZN](#), [BOBE](#), [CHUY](#), [CMG](#), [FRGI](#), [FXD](#), [IWF](#), [IWM](#), [QSR](#), [RUTH](#), [SHAK](#), [SONC](#), [XLY](#), [YUM](#), [YUMC](#)



## Market DJ

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### Summary

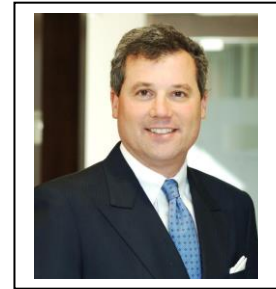
- Introducing Dan Weiskopf and Restaurant Leaders ETF MENU.
- Methodology, back-test performance, and discipline.
- Rebalancing, weighting, and quick-service restaurants.
- The Amazon Effect on Consumer Discretionary ETFs.
- Industry Outlook: Activism, technology, and final thoughts.

Welcome to our first *Weekly Restaurant Special Report: Industry Interview*, a Seeking Alpha exclusive brought to you by [Market DJ](#).

In our constant search for information and insight into everything restaurant, the *WRR* recently conducted a back-and-forth interview with Dan Weiskopf, who owns the Restaurant Leaders INDXX index, which is what the Restaurant Leaders ETF (NYSEARCA:[MENU](#)) tracks. Our [sophomore edition](#) of the *WRR* briefly mentioned the relatively new (debuted Nov. 8th, 2016) MENU, which led to an extended discussion of industry outlooks and topics including: Amazon's (NASDAQ:[AMZN](#)) presence in consumer discretionary ETFs, technology's place in the sector, activist investors and

management, moving averages, and of course, how the index performed in the backtest.

We conducted this interview via email, with follow-up questions and discussions over the phone. We wanted a look into MENU, as well as the Restaurant industry as a whole. Before getting started, we asked Dan to briefly describe his background and how he came up with the concept of establishing the index.



I have been in the financial service industry for 30 years, but focused for the past 12 years on ETFs. Prior to that I worked at UBS Financial Services and was also a portfolio manager for a small-cap hedge fund for about 7 years (1995-2003). The origins of the thesis behind the restaurant index stems back to my hedge fund days when I was involved in investing in fragmented industries that were experiencing change through consolidation, technology and marketing. More background about me can be found on my [LinkedIn page](#) where I also post articles about the industry."

Keep in mind, Dan's responses prolifically cover some very broad questions, which was the goal, meaning we kept our questions short and let Dan run with it. We wanted his take on everything restaurant, and think this interview provides investors with a very insightful, well-balanced perspective. Enjoy!

**Market DJ:** Can you briefly describe your role with the USCF Restaurant Leaders ETF MENU, and give readers a quick summary of any pertinent information in regards to how the fund functions?

**Dan Weiskopf:** Through Access ETF Solutions LLC, I am the owner of the Restaurant Leaders INDXX index, which is what the ETF tracks. The index was developed in collaboration with INDXX LLC who was the third party calculator and manager of the back-test process and remains the calculation agent of the index today.

As the index owner I can speak about the index, but I cannot speak about the ETF for regulatory reasons. Truthfully they are completely separate entities. However, investors can look at the index as the engine or the steering wheel and the ETF is the body of the car. Using the car analogy, it is fair to assume that the car's objective is to stay on the road and track the index. USCF Advisers, LLC is the owner of the ETF and as the owner they are responsible for tracking the index. USCF has been an ETF issuer or sponsor for about 10 years, has about \$5 Billion in asset under management under the brand US Commodities LLC.

In creating the index I did a great deal of research speaking to restaurant industry people and sophisticated investors in the group. It has been my experience that fragmented industries operate generally with different business models until a trend is identified that leads to a common discipline for success. In 2010, 3G Capital and Warren Buffet began the restructuring of Burger King (NYSE:[QSR](#)) and this trend towards refranchising has put other companies under pressure to pursue the same strategy.

**Market DJ:** We like picking stocks, as do many investors on Seeking Alpha. How would you make a case for indexing the Restaurant sector as opposed to picking a basket of perceived winners in the space?

**Dan Weiskopf:** I know stock pickers enjoy the challenge of a solid bottoms up analysis, but in my research to build the index it became clear to me that with the exception of the trend in quick-service restaurants there are real challenges to identifying consistent fundamental trends to provide investors with an edge in the space. Identifying the right consumer trends are critical to the industry, but let's face it- the consumer is fickle, menus need to adapt to different tastes and trends and there are really so many business models in the group that margins are hard to analyze. I really don't see why take the risk in trying to choose the individual winners when it is clearly more about getting the macro trend right, and letting the heavy lifting be implemented by the "smart money" who has identified the right business model makes more sense to me.

The strategy therefore is to look to capture the broad trend in the QSR market and offer diversification to mitigate systemic risk. Now I acknowledge that the information that I provide about a back-test is not about the ETF, but the systematic implementation of the methodology has been consistent, done by a third party and hopefully is clear.

The goal in building the index was to capture the growth and evolution in the industry and therefore the index historically has over-weighted growth and small-midcaps. I would challenge anyone involved in the space to measure his or her performance against this index.

I wish I could share the charts with your readers comparing the 10-year historic index performance of the Russell growth (NYSEARCA:[IWF](#)) and the Russell 2000 (NYSEARCA:[IWM](#)) to that of the Restaurant Leaders index. Now truly past performance may not be indicative of future performance, but the operating rules for all three indexes are consistently followed. I know without the charts it is hard to visualize the difference, but the calculations are the same. Meaning that respectively, the past performance of the Restaurant Leaders index for the periods from 11/30/2006 through 11/30/2016 was 256.88%, but the Russell Growth was at 109.92% and the Russell 2000 was 93.18%. We will be updating our factsheets with more data this week and clearly this is simply only one snapshot.

**Market DJ:** On December 23rd, the fund [rebalanced](#), highlighted with the removal of Chuy's Holdings (NASDAQ:[CHUY](#)) and Sonic Corporation (NASDAQ:[SONC](#)), and the addition of Chipotle Mexican Grill (NYSE:[CMG](#)), Bob Evan's Farm (NASDAQ:[BOBE](#)), Ruth's Hospitality Group (NASDAQ:[RUTH](#)), and Fiesta Restaurant Group (NASDAQ:[FRGI](#)). Can you briefly describe the criteria and/or timelines involved with these types of decisions? And, how difficult is it to make these decisions?

**Dan Weiskopf:** We rebalance quarterly and the recent example took effect on December 30th. ETFs are about transparency so we want to give investors proper notice.

There are about 65 companies available in the basket, which is broader than the actual index. About 20 to 25 names are quickly screened out based upon minimum size criteria and or a lack of focus on the industry by those companies. The first screen is about companies that have a market cap of a minimum of \$300 million and which trade a minimum of \$1.5 million. In aggregate there are about \$300 billion of market cap that is available across about 40 stocks in the index. The number of holdings in the index over the past 10 years has ranged between 30 to 40 companies, but currently only stand at 34.

The second step in the rebalance process is fairly straightforward. Given the research it was determined that the index should be overweight the quick-service restaurant category at about 70%, but this number is not static. The balance is weighted towards full service. In the index back-test, the QSR percentage historically has ranged from 68% to 73% over the past 10 years so it is fairly consistent and predictable. Over the past 6 years, the QSR category has materially changed as franchisors have moved towards an asset light business model, which also has high cash flow and low capital expenditure. Frankly, it's an ideal growth model and is part of the reason so much "smart money" is aggressively moving into the industry.

The next two screens involve a two-step process, which basically eliminates the 6 underperforming companies based upon a quantitative process that involves a 50- and 200-day moving average. The purpose of these two screens is to manage some risk and to focus on the leadership in the group as well as to provide some dynamic variability in the QSR/FSR (full-service restaurant) mix. Screen 3 eliminates 1 stock from each of the 2 categories and then the fourth step eliminates the 4 stocks from both categories that are weakest according to the final similar quantitative process. The top 5 holdings by market cap are over-weighted by their allocation by virtue of the 6 companies that are eliminated. This is the reason at the start of the most recent rebalancing, the top 5 holdings are 4.25% and the other holdings are at about 3.18% and 2,14%. I am happy to provide the methodology guidebook if someone asks. The outcome of the latest rebalance is that the

index is about 70% weighted towards growth companies, 55% weighted towards mid-cap small companies.

**Market DJ:** One specific company stood out, Chipotle Mexican Grill, which wasn't originally in the fund, but was added on December 23rd during the rebalance. Can you comment as to why? What changed?

**Dan Weiskopf:** I figured you would find this position interesting given your disclosure on this website. I think many people might find this position interesting, but really the decision to make Chipotle one of the top 5 holdings at about 4.25% is based upon the index rules. No one should view this weighting as a recommendation. The index decision was based upon how CMG had performed with the index quantitative process relative to the other stocks that were recently eliminated. I cannot say that this decision is based upon fundament changes at CMG, but most importantly it will be interesting to see whether Bill Ackman who owns almost 10% of CMG pushes for real change in the company. A lot of people may not know that Ackman has also owned Burger King for many years. I do, however, like the thought that I have a guy like Ackman, [Nelson Peltz](#) and Warren Buffett with 3G Capital working on companies in the index.

**Market DJ:** Obviously, thirty plus restaurants can be difficult to track. Do you predict increasing the amount of companies in the fund, and how would you handle IPOs? What if, for arguments sake, a number of restaurant groups moved from private equity to become publicly traded in a short amount of time?

**Dan Weiskopf:** The back test performance in 2015 benefited in part by avoiding some of the froth from companies that came out at significant multiples and the minimum market cap and 2 step screening process is designed to cut the weak players out when they become falling knives. Given the index's need for a 50-200 moving average Shake Shack (NYSE:[SHAK](#)) was not added until the September 2016 rebalance and similarly spin offs are not added. There have been a lot of corporate

restructurings- spin-offs in this industry thanks to activist and many of the management teams want to return capital to shareholders. Yum! Brands (NYSE:YUM) is the most recent example and in that case pursuant to the rules we eliminated the YUM China (NYSE:YUMC) and re-weighted YUM back to its pre-spin-off weighting. This is important because it remained consistent with the index methodology that seeks to capitalize on the low-risk refranchising model. We will review YUM China when we rebalance and it has a 200-day moving average. Again, it was great to have a smart guy with billions like Keith Meister, effecting change in the industry.

The IPO market for restaurants in 2017 will depend upon the economy and whether same-store sales and foot traffic rebounds. I hear that multiples on franchisees have come down in the private market side so I would expect the consolidation in the group to continue. It is more likely that the secondary market for established companies heats up first in 2017 in response to positive trends and the arbitrage that exists between the private market and public market.

Private Equity firms also could seek to monetize or diversify their brands by consolidating back door into publicly traded companies that are synergistic non-competing brands. Remember the broader trend is more about leveraging technology and marketing and servicing different customers and demographics with a real value proposition. This is a creative group that will seek to reinvent its offerings and keep the momentum going and capital access is an important aspect to this success.

**Market DJ:** Let's broaden the scope a bit. We live, breathe, and eat everything restaurant, and certainly do not think of MENU as a niche product. However, does the fact that publicly traded restaurant groups/companies only represent a small segment of the total market worry you? Meaning, do you feel the fund really misses out on a big part of the industry's broad success given this fact?

**Dan Weiskopf:** People who look at this opportunity as a niche product are wrong! The restaurant industry overall is too important an industry not to be a focus for investors, but yet ironically it's a very small weighting in the benchmark that everyone follows: the S&P500 has about a 2% weighting towards restaurants. Amazon alone is at about 1.5%. Arguably, my thinking is that this presents people with an opportunity to generate alpha.

I think you are correct that private equity and small business people make up a large part of the industry. These smart people have been drawn to the high cash-flow model, but I feel confident in the history of the index beyond just small caps clearly captures strong results as compared to other consumer discretionary alternative index. Moreover, I would argue that it is the "Smart Money" that is working for me in this industry is leading to broad change that will continue to enhance overall returns.

This is proved out again in the returns on a historical basis as compared to the indexes for the most prominent consumer discretionary index (NYSEARCA:[XLY](#)). We call this the Amazon factor.

Again, using just the indexes over the past 5 years it is evident that the importance of the 12% weighting on AMZN is critical to returns. Meaning that for the 5-year period ending November 30, 2016 the Restaurant Leaders Index showed an increase of 158.81%, 129.79% and 95.57% or an annualized rate of 20.92%, 18.08% and 14.34%. The lowest performing index had a more moderate weighting on Amazon- closer to 7%.

Most importantly, I believe your readers may find the Amazon factor becoming even more challenging after Amazon jumped over 121% during the 2-year period ending November 30, 2016. This means that during this period Amazon was up over 48% on an annualized basis. People invested in these other consumer discretionary indexes (NYSEARCA:[FXD](#)) therefore should not be surprised that Christmas may not come every year! Put differently, expectations are very high for Amazon and therefore very high for the consumer discretionary index, which is over-weighted by its success.



Stock pickers may enjoy trading and investing in Amazon, but in reviewing the indexes that are driven by Amazon people need to think clearly as to whether they are achieving their own diversification goals.

**Market DJ:** Speaking of the restaurant industry holistically, what kind of outlook do you have for 2017? And how do you see the longer-term U.S. restaurant industry landscape under the new Trump administration? To put it more bluntly, what kind of headwinds, and/or tailwinds do you see on the horizon?

**Dan Weiskopf:** I would agree with what you [reported](#) about Fitch estimating 4% for the group next year. However, I am obviously in the camp that thinks this number could be even stronger if the economy picks up. There is a lot of coverage on Seeking Alpha on the group. People love trying to pick their favorite names, but what is most important to me is the fact that 70% of the U.S. economy is consumer driven and our index is set up to be a wonderful window into how the group is performing. This group will provide real transparency into the economy through same store sales, foot traffic, employment, consumer confidence etc. Ignoring the space is a mistake!

When someone talks about headwinds they are really asking about momentum and lately there have been questions about the three-legged stool- unit expansion, same store sales, and price. However, I feel that most people are focused on the obvious rather than appreciating how the industry is changing to adapt to important dual income and millennial trends. Technology is going to play a critical role in the future. This is evidenced today by who is now leading the most successful coffee brand. I think many people have lost sight of how technology has improved the service experience for that company and made its business model so strong. In hard numbers, it is amazing to me that they have over \$1.2 billion on their books in effectively pre-orders. This type of innovation is a win-win for everyone and clearly targeted at the millennial group.

Other concerns include minimum wage, but clearly under the Trump presidency this issue as well as regulations will be handled in a more practical manner. I am concerned about commodity prices, but that is because mostly commodity prices for the past couple of years have benefited the group. I admit a third headwind is related to the question of whether the industry has over capacity, but really the demographic trends that involves millennials and dual income should keep the trend rolling in the right direction

For me the most important trend remains the activism and how the companies will continue to be re-invented and return capital to shareholders. Innovation in the industry driven by technology and private equity seeking to create efficiencies will not slow down. The "Smart Menu" that is driving the changes in the industry will integrate franchisor and franchisee efforts and tie business interest to the singular purpose of meeting the consumer need efficiently. These are smart people so I am glad they are working for me in this industry.

**Market DJ:** Dan, this has been a great interview, and we appreciate you sharing your thoughts, ideas, and impressions with the *WRR*, and Seeking Alpha community at large. The final question we will leave up to you. What, if anything, would you like readers to know about MENU and/or the Restaurant Industry that we haven't covered? Give us any final takes, and thank you again.

**Dan Weiskopf:** In a world where transparency is critical to success why not focus on the industry that is most transparent and represents a window into the consumer, especially when 70% of the U.S. economy is consumer driven. I really don't think people appreciate how important this industry is as a read into the economy, but for sure if you assume that the 4% weighting it has on GDP and its 2017 growth forecast is accurate and assume that other ancillary businesses are associated with this dynamic industry how should this index not be a core part of their investment process. Clearly as an ETF Strategist I am biased. I simply don't believe in

single stock selection unless you are an activist and are prepared to fight for change. I make no judgment about what stocks are good or bad, but for sure this index should be viewed as relevant to every investment portfolio that is tactical in nature, with a growth objective and or economically sensitive. Oh by the way - every equity portfolio is economically sensitive! Thank you for letting me join you. I hope everyone finds the information constructive.

**Market DJ:** Thank you, Dan. You provided investors with some interesting insights and models, as well as fodder for further discussion. We greatly appreciate your time, gratitude, and industry perspective, and would like to follow-up on some of these topics in the near future. We hope readers enjoyed this interview, and invite you to questions or comments below. Please note the number of necessary disclosures as to keep everyone out of trouble. Thanks again, and remember to eat well, be merry, and prosperity is yours!

**Disclosure information for Dan Weiskopf:**

For more information and full disclosures, visit <http://menuetfindex.com/>

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**Disclosure:** I am/we are short CMG.

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