

July 2020 Fund Update - Capital Appreciation Fund LP

For the month, the Capital Appreciation Fund gained 7.4% and is now up 5-6% YTD at the time of writing. We are pleased with both our performance and our current holdings and note that we are 78% long equities and 20% long gold, leaving room for future equity purchases, if we see any opportunities.

Our equity holdings include significant weight (nearly 30%) to the "fab 4" of Google, Amazon, Apple and Facebook. In Q2, that was recently posted, the four combined to earn \$28 billion in profits, despite the US economy contracting by an annualized 32.9% during the same period. Even though these companies felt some impact from the economic slowdown, Amazon's sales were up 40% from a year ago with double the profit. Facebook's profit jumped 98% and Apple increased sales of all its products in every part of the world, resulting in \$11.25 billion in profit.

The combined market value of these four companies rose by about \$230 billion on July 31st, lifting them above \$5 trillion for the first time. The stock market is primarily driven by earnings, not GDP or employment, and to the extent that these companies can continue to generate income even in stagnant economies, we expect their stock prices to rise even further. The innovation and value that these tech companies have brought into the world are integral parts of our everyday lives. In fact, 29% of the world uses Facebook, while Amazon controls 47% of US e-commerce, and Apple grew iPhone sales by 25% last quarter as the broader smartphone market declined by 14%.

After two decades of disruption, it is quite clear that the center of gravity has shifted for both economies and markets, with bulk of the value in markets coming from companies that are very different from those that dominated the twentieth century. For instance, Google continues to democratize the internet, providing information to all corners of the globe. Facebook is connecting people and creating communities in these times of social distancing and periods of loneliness. Amazon employs thousands of people in its warehouse fulfillment centers and allows for many small businesses to grow and prosper, while Apple and its ecosystem allow for easy access to all things important.

While much is made of the fact that the biggest companies of today's markets derive their value from intangible assets, it is precisely their lack of capital intensity and flexibility that allows them to take advantage of opportunities quickly, and scale down rapidly in the face of threats. This combination increases the upside and decreases downside, making them important holdings for ours or any investor.

Our foray into Gold has been nothing short of spectacular, providing both portfolio defense and significant offense. The recent surge in gold prices to new all-time highs has substantially outpaces both the rise in real rates and other US dollar alternatives, like the Euro, Yen and Swiss Franc. We believe this disconnect is being driven by a potential shift in the US Fed towards an inflationary bias against a backdrop of rising geopolitical tensions, elevated US domestic political and social uncertainty, and a growing second wave of covid-19 related infections. Combined with a record level of debt accumulation by the US government, real concerns around the longevity of the US dollar as a reserve currency have started to emerge. We believe that gold is the currency of last resort, particularly in an environment like the current one where governments are debasing their fiat currencies and pushing real interest rates to all-time lows. With US real rates expected to continue to decline, we believe that gold continues to have considerable upside and is a must in any investment portfolio.

We thank you for your continued support and look forward to future communications.

Steven Tuchner