



## Isn't it Ironic?

Alanis Morissette is a Canadian singer and songwriter known for her emotive mezzo-soprano voice and confessional songwriting. In 1995, she released Jagged Little Pill, which sold more than 33 million copies globally and is her most critically acclaimed work to date. One of the many hits off the album was "Ironic", which presents several situations that are described as "ironic". Of late, the financial media's coverage of this latest market decline seems ironic to me. With each report about why investors should be careful, the list of issue continues to grow and now includes runaway inflation, rising interest rates, a hawkish Federal Reserve, quantitative tightening, the possibility of a recession, the widening high-yield corporate bond spreads, the continued war in the Ukraine and supply constraints due to lockdowns in China. While the press' coverage is important, ***it is ironic that back in November (at all-time highs), none highlighted the potential for any of these issues.***

One investor who is ignoring the media is the great Warren Buffett, CEO of one of largest holdings, Berkshire Hathaway. Last Saturday I watched the Berkshire annual meeting. Throughout the 7-hour Q&A session, Warren Buffett and Charlie Munger provided many pearls of wisdom and revealed that they had recently (within the past 3 weeks) spent approximately \$40 billion purchasing stocks from their \$144 billion of cash on hand. With Nasdaq having its worse start ever to a year, it was also interesting to hear that Warren Buffett recently purchased an additional \$600 million of Apple, adding to his already massive \$150 billion holding. While the pundits continue to report on why we should sell, ***Buffett is following his own advice by "acting greedy when others are fearful to reap enhanced returns"***.

To help take heed of Buffett's saying, we have performed some analysis on our current technology holdings. I chose December 31, 2018, as the starting point, as this was the last time interest rates were at the same levels as they are today. Our financial holdings, namely, JP Morgan, Berkshire Hathaway, and Goldman Sachs, are deliberately left out as their businesses are analyzed differently. The chart highlights many company attributes that I encourage you to peruse, but the primary focus should be the final column on the right. **This column (EV/EPS) reveals that earnings per share growth has driven enterprise value growth, not multiple expansion.**

In addition to this conclusion, another observation is that Amazon, Meta, Google and Nvidia are trading at a fraction of their 2018 valuations, with Amazon at about half its multiple at 0.56. The Amazon decline is even more opportune given their enormous cloud business that has been built over the past 4 years. The group has \$270 billion of annualized earnings and generates about \$300 billion of annualized free cash flows, adding to their war chests of a combined \$470 billion of cash. As the Federal reserve reduces liquidity from the system, these balance sheets will become an even larger competitive advantage than they already are. Interestingly, Google has the most net cash—a whopping \$105 billion, enabling them to buy back their own shares or any of the bottom 420 companies in the S&P 500 Index. ***While these are but a few of the factors I use to analyze our holdings, they confirm that the group is as cheap today as they were in 2018, prior to them doubling in value.***

Company Name	Portfolio Weight	Share Price April 30 2022	Shares O/S April 30 2022 \$(000,000)	Market Cap April 30 2022 \$(000,000)	Cash (Net of Debt) April 30 2022 \$(000,000)	Enterprise Value Dec 31 2018 \$(000,000)	EV Current April 30 2022 \$(000,000)	EV Growth 2022/2018	EPS 2018A \$/Sh	EPS 2022E \$/Sh	EPS Growth 2022/2018	EV/EPS
Microsoft	9%	\$277	7,700	2,079,457	26,712	710,769	2,048,869	2.9x	\$3.67	\$9.00	2.4x	1.18
Apple	9%	\$157	16,278	2,566,226	72,749	950,773	2,493,477	2.6x	\$2.97	\$6.00	2.0x	1.30
Amazon	9%	\$2,485	509	1,265,185	-63,065	745,506	1,327,555	1.8x	\$20.15	\$64.40	3.2x	0.56
Meta (Facebook)	5.5%	\$200	2,725	546,000	29,232	333,016	513,304	1.5x	\$7.57	\$13.70	1.8x	0.85
Alphabet (Google)	8%	\$2,282	660	1,505,000	105,228	618,213	1,403,024	2.3x	\$43.65	\$124.4	2.9x	0.80
Nvidia	2.5%	\$186	2,504	464,000	9,377	142,350	455,042	3.2x	\$1.15	\$5.70	5.0x	0.64
Total	43%				\$153,521	\$2,789,858	\$6,192,405	2.2x			2.2x	1.00

The Fund continues to be split between the long-term investing portion that represents 80% of the capital, and a trading & hedging component (mostly cash) that comprises the balance. As the aggregate decline of our core holdings was approximately -14% in April, the Fund benefitted from holding cash and because of profits generated in the trading account. In fact, the Fund earned +1.1% from trading & hedging in April and lost nothing on our cash. **For the month, the Fund declined -10% (the S&P500 was down -8%, while the Nasdaq was down 14%) and is now down -15% YTD.**

After an admittedly exhausting month where hedges and trading were my only source of profit (this was Nasdaq's worse month since 2008), **it is our belief that the asymmetric risk is to the upside now that much of the excesses have been removed.** While our cash has prevented larger losses, and trading has added over +2.5% to the Fund's annual return, given our above views, we are actively looking to deploy capital. Irony is defined as an event that seems deliberately contrary to what might be expected. To that end, I penned some lyrics that Alanis may have written had she been sitting in my chair.

**Everyone was bullish at all-time highs  
When analysts and pundits were screaming to buy  
Now stocks are down around 30%  
And Buffett is the only one buying dollars for cents  
Isn't it ironic, don't you think?**

Sincerely,

Steven Tuchner  
Founder and CIO

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