



Annus Horribilis

In 1992, Queen Elizabeth brought this phrase to prominence in a speech at Guildhall, marking her Ruby Jubilee on the throne. In my 18th year of professionally managing money, I echo her sentiments by stating that 2022 "is not a year on which I shall look back with undiluted pleasure". After another bad month for stocks, our Fund declined by -6% in December, ending our year with a -25% decline (the S&P500 was down -20% and the Nasdaq, -34%). **To quantify this decline, both the S&P500 Index and the Nasdaq each lost nearly \$9 Trillion of value in 2022.**

Losing ¼ of the value of our portfolio while using 80% of the Fund's capital only explains part of the story. Without my trading profits on the remaining 20%, our loss would have exceeded 30%. **Put another way, our blue-chip group of Apple, Microsoft, Google, Amazon, Meta, JP Morgan, Berkshire Hathaway, Goldman Sachs and TD Bank, lost over 1/3 of their value in 2022.**

From a fundamental perspective, our holdings had a solid year with each reporting near record revenues and/or profits. Further, each is forecasted to grow their revenues and EPS in 2023. In fact, since the outset of Covid all have grown their businesses by a minimum of 50%. **Despite the enormity of this growth, some of our holdings are trading down to pre-Covid levels while others, such as Amazon and Meta are trading at or below their Covid lows.** All of them have billions of dollars of cash on the balance sheets, enormous earnings and positive free cash flows, return significant capital to shareholders in the form of either dividends or share purchase buybacks, have large and defensible moats, and each is managed by one of the most respected CEOs in the world. **As I have written in the past, these companies are among the greatest on earth.**

However, 2022 was not about fundamentals. it was about macro-economics. Specifically, the year was filled with a rolling series of macro issues that included elevated inflation, a hawkish Federal Reserve, rising interest rates, a strong US dollar, and finally recessionary fears. Each of these factors caused Markets to fall, yet no bounce occurred when each moderated. Inflation, interest rates and the US dollar all peaked in October, **but the Market ignored the temperance** and continued to decline as it turned its sights on the next problem, the possibility of a recession. As another example, early in the year the Market declined because oil doubled from \$70 to \$140. **Since the peak in March, oil has round-tripped back to \$73, yet no rally has ensued.** Warren Buffett has a view on macro-economics saying, "I don't pay attention to what economists say. Well, think about it. You have all these economists with 160 IQs that spend their life studying it. Can you name me one super-wealthy economist that has ever made money out of securities? No". **While I am interested in economic matters and familiar with macro factors, my preference is to focus on long-term business fundamentals.**

At the depths of the financial crisis in December of 2008 the Queen said, "when life seems hard, the courageous do not lie down and accept defeat". **I too, will not accept defeat.** Despite the performance in 2022, it is important to remember that the Market has a way of bouncing back, and that over the long term, investing in a concentrated portfolio of superior companies, has the potential to yield strong returns. With the fundamentals remaining strong, and their stocks down between 30% and 65%, valuations have now moved from reasonable to opportune. **In fact, I estimate that the bookends of the portfolio are 15% to the downside and a double to the upside.** As such, we have taken what the Market has given us and added 1% to each of our holdings, resulting in a portfolio weight of 92%. **We wish you a happy new year, thank you for your continued support, strongly suggest you add money to the Fund, and note that we are confident that 2023's letter will be titled Annus Mirabilis (wonderful year)!**

Sincerely,

Steven Tuchner
Founder and CIO

