TRIUMPH
ASSET MANAGEMENT

Not So Spooky

Halloween is the one night of the year when we pay to be frightened by things we know are not real. The ghosts are bedsheets, the monsters are neighbours, and the houses with the scariest decorations hand out the best candy. October felt a lot like that.

For the month, the Fund declined 2.6% and is now up approximately 3% for the year. The S&P 500 declined 0.9% and the Nasdaq 100 fell 6.7%. Mastercard, Visa and Berkshire Hathaway each rose between 9% and 16%, while Alphabet fell 18.7%, Meta 15.2%, Nvidia 10.4% and Amazon 3.5%. Because the hyperscalers are our largest positions, the net result was a down month.

Fear of AI spending spread through the market like a contagion. It started with Meta's capital expenditure guidance, jumped to Alphabet a week later, and by month end had infected Amazon and Nvidia. It spread without any regard for what the companies actually reported, which is shown in the table below, along with what each stock now costs relative to the next four quarters of earnings.

	Stock in October	Revenue growth	Operating income growth	EPS growth*	P/E, next 4 quarters
Alphabet	−19%	+25%	+30%	+32%	18.2x
Meta	−15%	+26%	+11%	+2%	17.3x
Nvidia	−10%	reports Nov 17			16.9x
Amazon	−4%	+12%	+61%	+63%	21.0x
Microsoft	+2%	+19%	+21%	+32%	25.1x
JPMorgan	+2%	+6%	+7%	+10%	13.6x
Apple	+3%	+12%	+10%	+14%	36.5x
Berkshire	+9%	reports Nov 7			24.4x
Visa	+15%	+13%	+18%	+17%	27.5x
Mastercard	+16%	+14%	+13%	+21%	28.7x
S&P 500	−1%				19.7x
Nasdaq 100	−7%				21.4x

** Excluding one-time items. Most recent quarter versus the same quarter a year earlier. Apple reported on November 2, after month-end*

The irony is hard to miss. **The stocks that fell the most were, by and large, the companies that grew the most in their most recent quarterly reports released last week.** Alphabet grew earnings 32% and fell 19%. Amazon grew earnings 63% and fell 4%. Meta grew revenue 26% and fell 15%. The market handed out tricks to the companies that delivered the treats. Apple, reporting

after month-end, grew revenue 12% and earnings per share 14% in the best September quarter in its history.

What this means is that the multiples on our largest holdings have been compressed even further. Alphabet, Meta and Nvidia now trade at 17x to 18x the next four quarters' earnings, a discount to the S&P 500 at nearly 20x and the Nasdaq 100 at 21x, despite growing at a multiple of the index's pace. We have written before that the market was valuing extraordinary businesses as ordinary ones. In October it valued three of them as below average. We understand the mechanics, as the market wants proof that the spending will earn a return before it pays for the earnings already here, but we do not accept the verdict. Nothing about these businesses got worse in October. Only the price did.

Which brings me to the treats. Taken together, Alphabet, Meta, Amazon and Nvidia now trade at 17x the next four quarters' earnings, the lowest multiple of the past decade, and the lowest they have ever traded relative to the S&P 500. Nvidia and Amazon, on their own, are at decade lows. Like every Halloween, the scary part ends when the porch lights go off and the masks come off, and what is left is a bag full of candy. The monsters the market ran from in October were four of the most profitable companies on earth wearing a costume called capex. We did not hand over our candy, and the first days of November show why that matters. The market sold off hard again as this letter went to print, leaving the S&P 500 down 3.0% and the Nasdaq 100 down 4.4% for the month so far, while the Fund is down 1.7%. **Companies that have already been washed out do not have far to fall, which is exactly what a 17x multiple on a business growing 30% is supposed to do for you**. From here we expect to be enjoying the treats for the foreseeable future. We remain fully invested, thank you for your continued support, and look forward to next month's communication!

Sincerely,

Steven Tuchner
Founder & CIO

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