



July 11th, 2020

Dear Investor,

While I was baffled by the widespread fear of Covid 19 by the population and governments, there is now another strange behavioral cluster developing: Greed. The notion of “Fear of missing out” (FOMO) has taken over the investment industry. Friends from all backgrounds have contacted me to understand how to invest in the stock market – fashion sales people, advertising producers and even football talent scouts – all of them suddenly believe they are best off spending time on investing. The sad thing is, all of them have a similar amount to invest, around 5-7,000 and all of them use the same technique: Follow the news, buy what’s hot and always, always buy the dip. They don’t ask me to invest their money, but instead ask me how to set up an account. What’s even scarier is that these newbies have likely had more success than professional investors over the last three months.

The number of brokerage accounts, in particular those for small retail investors such as the Robinhood application, have added millions of new users over the last couple months – a record. A survey indicates that most people receiving aid from the government via the Paycheck Protection Programme in the US, for instance, have used much of that money to invest in the stock market. Then you have companies like Amazon or Tesla approaching all-time highs. Amazon, in fact, is valued at \$1.6 trillion currently (8% of entire US GDP!). If you were to invest into Amazon and expect to get your money back in 20 years, the company would need to make on average \$80bn net income a year – the firm currently makes around \$11bn a year in net income and benefits by a wide margin from avoiding to pay tax – something that is likely to change soon, if you listen to the European Commission. Similarly, Tesla, is now the most valuable car making company valued at \$286bn, yet has never been able to produce a net profit. On top of that, Tesla is expected to produce around 500,000 cars this year. Compare that to Toyota’s 8.8mio units in the fiscal year ended March 31, 2020. We are currently experiencing the Dot Com bubble on steroids!

While I’m afraid that I did not beat the NASDAQ 100 this quarter, our performance has been back above the DAX and FTSE 100 after a terrifying Q1 2020. This quarter’s agenda will follow the same path as last quarter:

1. Performance
2. Performance explanation
3. Learning points
4. Outlook

Performance

After a 43% drop in Q1, our performance is up 41.87% in Q2. This means that a good part of the losses have been recovered, but unfortunately not to a full extend. The portfolio changed quite a bit during these volatile times. As the UK government increased their spending to pay salaries for furloughed workers, it became clear that the ambitious spending on infrastructure will be less impressive than first thought. Moreover, the sheer focus on infrastructure made one wonder why the government is so keen on infrastructure spending during a time of pandemic? And I believe the concept of infrastructure spending is not anymore a matter of stimulus, but rather of providing help to avoid another large bankruptcy that could put the whole sector in jeopardy. For that reason, I have sold out on our infrastructure investments and restructured out entire portfolio. Since inception, we are up 7.74%, yet display a loss. This is due to a redemption in 2019 amid tax payments.

Performance explanation

It was the right choice to sell out of our infrastructure investments, despite ending it with losses (Costain - 60%, Kier Group -30%, Galliford Try -15%). All three companies are less valuable today than when I sold them and as explained previously, the government's spending equation has changed, while emerging too late out of a shutdown that even left critical infrastructure out of work.

Our holdings in Premier Foods, however, have emerged as one of the best performing stocks in the UK. While I have sold some of it after incurring a 30% profit, we still hold some shares that are up another 50%. Premier Foods, as the #1 home cooking company in the UK, benefitted massively from the lockdown. However, I am turning a bit cautious here after a 200% rally from the lows, as the government is trying to prepare the population for a 2nd wave of Covid 19, in which they want to clamp down on obesity – Premier Foods generates a significant share of their revenue in cakes. For now, I still believe it is a great investment, as the company has reduced their pension obligations and net debt.

With the UK reopening their economy, I have added newspaper publisher Reach to our portfolio. As the industry is struggling with the virus, the firm's equity is cheap and with recent cost cutting measures (12% of their workforce is being laid off), it is a value play on the economy recovering.

A new large share of our portfolio is now also back in commodities, namely oil and iron ore. Enquest oil, a firm we previously owned, only needs a break even oil price of \$33, which makes it a cheaper producer than most others. While the company has reduced its long term oil price to \$70 per barrel, other competitors have lowered it to \$60 per barrel. This is currently the largest risk, as they would have to write down their assets further over the next years, in case there is no oil price recovery.

Iron ore has been hitting new year-to-date highs amid supply chain disruptions in Brazil and the Chinese recovery. Despite most analysts expecting iron ore prices to drop, I am somewhat bullish here, as China announced a large increase in their military spending – iron ore will hence benefit. With the US-China trade war continuing, China will need to beef up their military further. Ferrexpo, a Ukrainian miner, is here well placed. The company recently hired Rio Tinto's China marketing officer and the company is undervalued due to ongoing legal actions against its majority owner and founder and accusations of money laundering. While this is of great concern, the company currently pays out annual dividends of more than 1/7th its market value. We have received our first dividend this month for Q3.

Learning points

What makes a great investor? The rational thinker one might say. And this has been key once again during this market turmoil. My value driven approach has been tested and can be dangerous – remember Costain's loss of 81% in Q1. For Q2, I was a bit too cautious and waited a touch too long to flip my positions. The recovery in market prices has surprised me and I expected another sell off with Q2 results coming in. These risks have now shifted more towards highly overvalued technology firms, in which we have no exposure. When a major shift, like a pandemic, changes the world, value investing can be a bit misleading at times, as certain industries might have changed forever. But with technology companies (big beneficiaries of the pandemic) being massively overpriced, this shows me that investors are also underpricing some of those companies that have suffered during the pandemic. An important point during Q2 was definitely to not sell because you think a company was overvalued. Only sell, when you have a better investment in mind – don't sell to hold cash, this has been the golden rule this quarter.

Outlook

I end where I started. The Dot Com bubble is already looking like the little brother in terms of valuations to what we are currently witnessing. The current market melt up driven by retail money is prone to a correction. A correction that would be extremely economically painful, as it is retail investor's money, inexperienced and likely very emotionally driven and money that is usually used for consumption, which will be missed deeply. A few interesting examples of just how aggressive these retail investors are can be found here: <https://robintrack.net/leaderboard>. The parallels to the 1918/19 pandemic are striking. Back then the economy roared back and during the 1920s we have experienced one of the best growth years in history in the US. But it all ended badly when suddenly everyone, even the shoemaker, owned stocks with high levels of leverage. Given that corporations and governments expanded their levels of debt vastly, central banks are unlikely to be able to raise interest rates. This makes leverage even cheaper. With these last words, I'd like to emphasize that we are only involved in value investing, but know the risks, as there is always a reason why a certain company is valued cheaply.

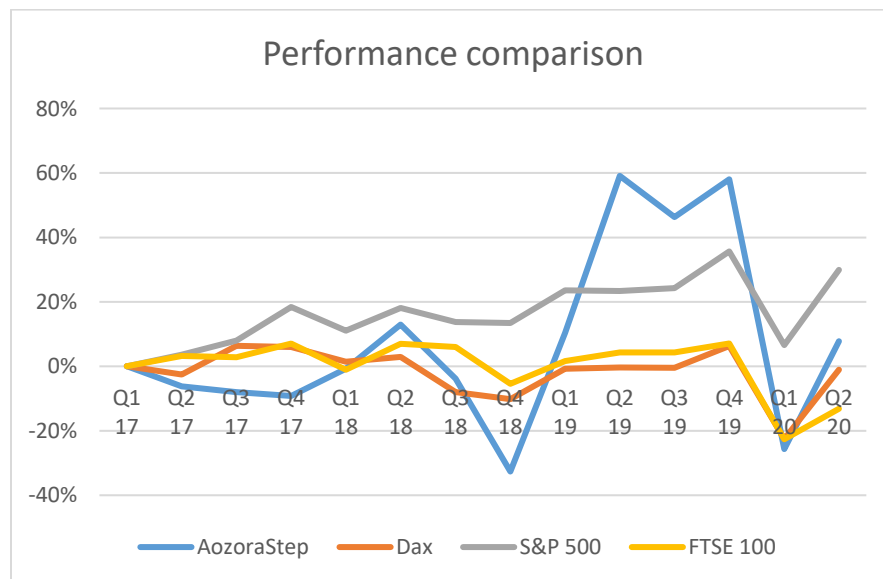
Below you can find all data, graphs and numbers related to our performance.

Thanks for being invested with me,

David Herrmann

Performance

		Portfolio	
Year	Quarter	% change by Quarter	% change from inception
2017	Q1	-	-
	Q2	-8.37%	-6.17%
	Q3	-4.92%	-7.98%
	Q4	-1.34%	-9.21%
2017		-9.21%	-9.21%
2018	Q1	8.60%	-0.79%
	Q2	18.91%	12.91%
	Q3	-16.20%	-3.86%
	Q4	-29.94%	-32.64%
2018		-30.79%	-32.64%
2019	Q1	45.41%	10.36%
	Q2	38.99%	59.10%
	Q3	-0.01%	46.30%
	Q4	8.04%	58.07%
2019		113.15%	58.07%
2020	Q1	-43.28%	-25.72%
	Q2	41.87%	7.74%



Dividends Receipts

Dividends	Payment Date	Dividend per share	Currency
GKN	18th Sep 2017	0.03	GBP
Inmarsat	25th May 2018	0.06	GBP
Inmarsat	19th Oct 2018	0.06	GBP
Reach	7th June 2019	0.04	GBP
Covestro	17th Apr 2019	2.15	EUR
Renewi	26th Jul 2019	0.01	GBP
IAG	5th Dec 2019	0.10	GBP

Current Holdings

Company	Average Purchase Price	Current Market Price	Currency	% change	% of portfolio
Berkshire Hathaway	224.7000	179.66	USD	-20.04%	0%
Premier Foods Plc	0.5280	0.7020	GBP	32.95%	31%
Enquest Oil Plc	0.1310	0.1372	GBP	4.70%	31%
Ferrexpo	2.0424	1.7330	GBP	-15.15%	38%
Reach Plc	0.9379	0.7630	GBP	-18.65%	25%

Current holdings in % of portfolio



■ Berkshire Hathaway ■ Premier Foods Plc ■ Enquest Oil Plc
■ Ferrexpo ■ Reach Plc