

“Our focus, trust”

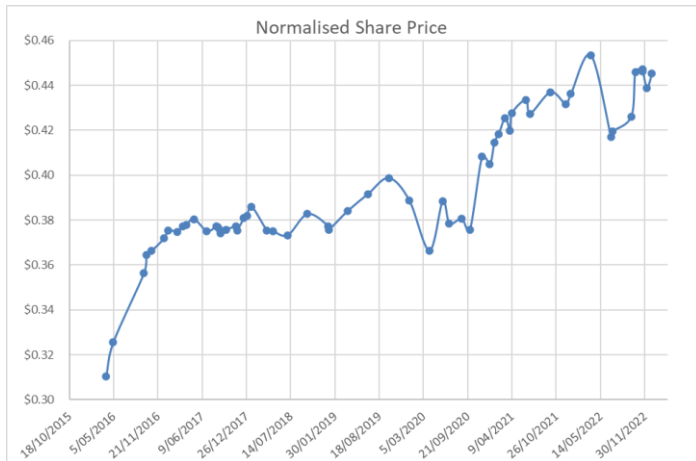
“Accounting for every trade”

**Investment Performance of Deployed Capital**

Auduco Pty Ltd’s current investment position and normalised share price are summarised in the table and figure below.

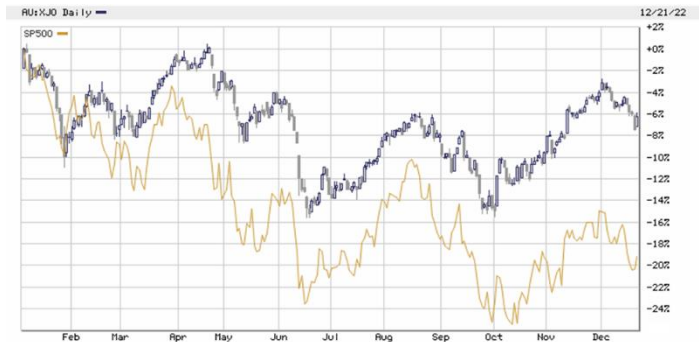
31-Dec-22 Snapshot		
Top 4 Equity Holdings	Ave Entry Price	Market Price
ANZ	\$23.43	\$23.66 (Q1 perf: <b>\$0.57</b> )
BOQ	\$7.96	\$6.90 (Q3 perf: <b>\$0.39</b> )
NAB	\$19.01	\$30.06 (Q4 perf: <b>\$1.25</b> )
WBC	\$20.09	\$23.35 (Q4 perf: <b>\$2.71</b> )
<b>Current Market Value</b>		
<b>FY23 Dividends to-date</b>		
<b>FY23 Interest to-date#</b>		
<b>Cash Holdings</b>		

Note #: Does not include interest currently being accrued in term deposit accounts.



The bear market grinds on for Australian and international stocks, as the figure below shows (comparing the local XJO with the S&P 500). Our local market outperformed the global benchmark for most of the year and even gave the hint of turning bullish, with the run into December resulting in a ‘higher high’. This needs to be confirmed with a ‘higher low’, followed by advancement above the recent high. The S&P500 has not corroborated the XJO moves – the recent bear market rally was unable to produce a new high. However, as we write, it is showing signs of putting in a ‘higher low.’ Also, the XJO is not alone in the pattern it is exhibiting with the Euro50 index looking similar, stronger actually. This outperformance relative to the S&P 500 is likely most attributable to the USD outperformance relative to local currencies.

All our major holdings are higher for the quarter. We were expecting a rally into Christmas and this occurred. Albeit, the corrective action in December was not expected – the expectation there was further advances. We liquidated Woodside shares (the smallest of our larger holdings) for a 61% profit and a copper holding (Develop Global, DVP) for a very small loss (almost breakeven: ~\$150) – copper has since started to rally, as has DVP. To balance that missed opportunity we have positions in Gold and Silver that have rallied strongly.

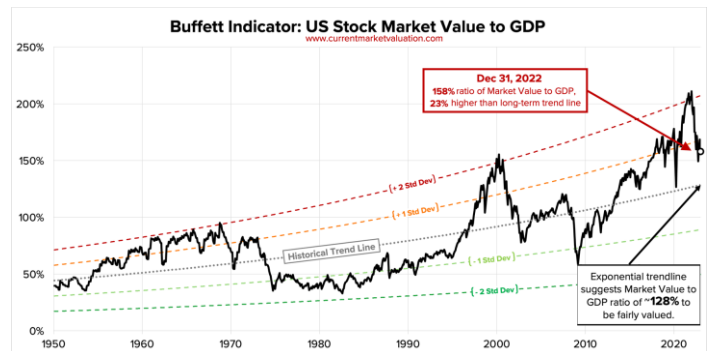


We experienced a large shareholder redemption this quarter, the funds being required for other matters. The investor advised he will likely buy back in over the medium term. One investor also injected further capital in December.

In the face of all this (the bear market in particular), our normalised share price remains near its all-time highs. We attribute this to the continuation of the rotation to value theme,<sup>1</sup> despite the hiccup our holdings experienced in June,<sup>2</sup> and the accompanying expectation that banks will outperform. Dividend payout ratios continue to improve, and the accompanying income is at its highest level in our history.

**Synopsis**

The bear market is now 1 year old.



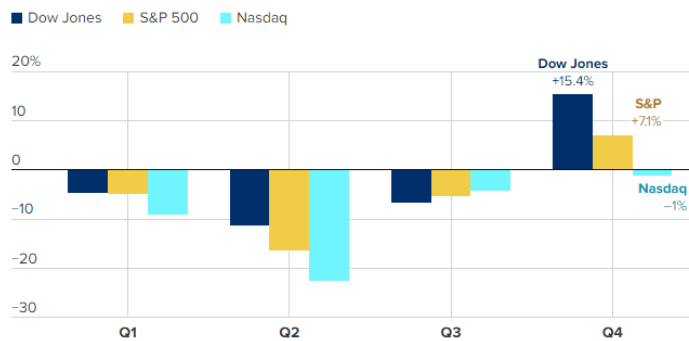
<sup>1</sup> Refer to any of the previous four Auduco updates.

<sup>2</sup> See Auduco update for Q4 FY22.

Many news headlines continue to be negative. From fund managers predicting a worse downturn than 2000 and 2008,<sup>3</sup> to claims that China's latest massive surge in Covid amidst authorities removing restrictions, will cause the global economy to nosedive.<sup>4</sup> Plus there appears to be economic consensus that a recession is on the cards for 2023.<sup>5</sup>

It was the worst year for US stock markets since 2008,<sup>6</sup> but nowhere nearly as 'bad'. The Buffet indicator (see chart above) suggests the market is entering fairly valued territory. Though, note that it historically over corrects past fair value in either direction when a trend is in place.

Technology stocks (i.e. growth stocks) are what have suffered the most – the performance of major US indices per quarter shown in the chart below:<sup>3</sup>



Note: As of market close Dec. 30, 2022  
 Chart: Gabriel Cortes / CNBC  
 Source: FactSet

All the big tech stocks, the FAANGs, that were driving much of the market advancements over the past decade, have experienced major corrections. Meta (Facebook) experienced its worst week ever in October, with Amazon falling 13% in the same period.<sup>7</sup> Tesla lost 12% of its value in a single day.<sup>8</sup>

Within the S&P 500, the communication services sector was the worst performer for the year, falling more than 40%, followed by consumer discretionary. Energy was the only sector to rise, climbing 59%.<sup>3</sup>

How long the bear market will last is anyone's guess. The dire predictions could come true. However, long term trendlines usually provide a clue. The chart below (courtesy of Asenna

Capital), showing the current price of the S&P 500 relative to its long term trendline, indicates that it is some way off.



From a jawboning perspective, it has been the US Federal reserve and other central banks that have catalysed much of the corrective action for the year. Their theme was to tackle 'unexpectedly' persistent high inflation. Accompanying the rate increases has been quantitative tightening which sums to USD \$364 billion to-date, bring the balance sheet down to \$8.6 trillion.<sup>9</sup> That is still double the pre-covid levels, which were considered excessive back then.<sup>10</sup> The tone and action has changed slightly now.

The US Fed have maintained their commitment to fighting inflation, but broke their streak of four consecutive three quarter point rate increases to enact a half point rise in December.<sup>8</sup> The Fed funds rate sits between 4.25% and 4.5%, the highest in 15 years. The latest minutes indicate no rate reductions during 2023, but the rate of increases look to be easing. The telegraphed upper end of the Fed funds rate is 5.4%, according to some officials, but they indicated it could go higher if inflation does not abate.

The above coupled with some lower (and lower than expected) inflation prints across the world during the quarter, coupled with economic activity surveys indicating that inflation may be cooling,<sup>11</sup> should help stocks catch a sustained bid.

In terms of what could catch a strong bid, FAANGs (now called MANNGMAT<sup>12</sup>) are strong candidates.<sup>13</sup> This is due to both their status as go-to purchases for ETFs and their strong forecasted earnings in the coming years. This will bring them close to mind for many stock pickers, particularly after such heavy falls. (We recommend reading the referred to Real Investment Advice

<sup>3</sup> Get ready for a prolonged downturn that's worse than 2000 or 2008, billionaire VC Doug Leone says, CNBC, <https://www.cnbc.com/2022/11/23/sequoias-doug-leone-says-todays-downturn-is-worse-than-2000-and-2008.html>

<sup>4</sup> Situation in China set to lead world into global economic crisis, News.com.au, <https://www.news.com.au/finance/markets/world-markets/situation-in-china-set-to-lead-world-into-global-economic-crisis/news-story/cb1eafa9d9e6b204f03fc867609ce2eb>

<sup>5</sup> Why everyone thinks a recession is coming in 2023, CNBC, <https://www.cnbc.com/2022/12/23/why-everyone-thinks-a-recession-is-coming-in-2023.html>

<sup>6</sup> Stocks fall to end Wall Street's worst year since 2008, S&P 500 finishes 2022 down nearly 20%, CNBC Finance, <https://www.cnbc.com/2022/12/29/stock-market-futures-open-to-close-news.html>

<sup>7</sup> Big Tech falters on dreary earnings and forecasts for Q4— Meta has worst week ever, Amazon tumbles 13%, CNBC, <https://www.cnbc.com/2022/10/28/big-tech-falters-on-q3-2022-results-as-meta-has-worst-week-ever.html>

<sup>8</sup> Tesla stock plummeted 12% in a single day. Here's why, ABC NEWS, <https://abcnews.go.com/Business/tesla-stock-plummeted-12-single-day/story?id=96177954>

<sup>9</sup> Fed officials see higher rates for 'some time' ahead, CNBC, <https://www.cnbc.com/2023/01/04/fed-minutes-december-2022.html>

<sup>10</sup> See for example the Q4 FY20 Auduco update.

<sup>11</sup> Stocks stage first big rally of 2023 as hope grows that inflation will ease, Dow closes up 700 points, CNBC, <https://www.cnbc.com/2023/01/05/stock-market-futures-open-to-close-news.html>, Consumer prices fell 0.1% in December, in line with expectations from economists, CNBC, <https://www.cnbc.com/2023/01/12/consumer-prices-fell-0point1percent-in-december-in-line-with-economists-expectations.html>

<sup>12</sup> FAANG now equals MANNGMAT = Meta (FB), Apple (AAPL), Netflix (NFLX), Nvidia (NVDA), Google (GOOG), Microsoft (MSFT), Amazon (AMZN) and Tesla (TSLA).

<sup>13</sup> Are The FANG Stocks Dead?, Real Investment Advice, <https://realinvestmentadvice.com/are-the-fang-stocks-dead/>

article<sup>13</sup> for its description of the outperformance of growth over value sectors since 2008 and how that was primarily due to FAANGs, passive investing and share buybacks - with 40.5% of the returns being due to buybacks! It also presents a thesis for a sharp decrease in inflation for 2023.)

Another candidate sector for outperformance is Uranium stocks, with some predictions that the spot price will continue to surge.<sup>14</sup> Though note our uranium holdings have not fared well of late, despite the Uranium remaining steady at USD ~\$50/Lb, the Global X Uranium ETF too – this is primarily due to these stocks largely being of the speculative/growth/non-yielding kind.

### More True Carnage in Crypto

The subheading we used in the last update proved to be an understatement. The FTX (a major crypto exchange and hedge fund – only 3 years old) went from on track to being bought out by Binance to bankruptcy. It was the third largest crypto exchange by volume. Binance is the largest. Its liquidator testified to US congress in December that FTX's operations were a case of "old-fashioned text book embezzlement" – ala Bernie Maddoff style - and the state of it's recordkeeping as an "unprecedented and complete failure of corporate controls."<sup>15</sup>

Sam Bankman-Fried (FTX founder) has pleaded not guilty to a range of charges. However, two of his closest associates, Carolyn Ellison, former CEO of Alameda Research, and Gary Wang, co-founder of FTX, have pleaded guilty to fraud.<sup>16</sup>

It is very interesting that Bankman-Fried publicly stated that he only had \$100,000 to his name, yet was able to produce \$250 million for his bail.<sup>17</sup>

Such events are leading to increased scrutiny on the industry as a whole. Binance, in particular, has been subpoenaed multiple times by US Lawmakers investigating possible money-laundering violations in conjunction with several hedge funds. Binance is undergoing increased media scrutiny in parallel to this.<sup>18</sup> Coinbase settled on paying regulators USD \$100 million for its anti-money laundering failures.<sup>19</sup>

Repeating a comment from the last update: Media pieces describing the extent of losses, the personal accounts, mislabelling wiped out traders as 'victims', and the support groups are starting to proliferate.<sup>20,21</sup> Though, in this case, many of the retail investors caught in this FTX bankruptcy are victims.

We still recommend the Guardian piece [ref 20] based on its relating personal stories on how some people allowed their trading to spiral out of control and the "chances to live a better life fade away."

The carnage is expected to continue. As one genuinely experienced industry insider put it: "The shake out will continue {in 2023} – there will be more shoes to drop, more victims of contagion, more clients who learn their money is lost."<sup>19</sup> Indeed it is, as we write, with another firm signalling challenges.<sup>22</sup>

Until next time....

*For more information contact Dr Gianluca Paglia, 0425 388 222*

---

<sup>14</sup> Global uranium gun of 35 years says prices are poised for record highs, Livewire Markets, <https://www.livewiremarkets.com/wires/global-uranium-gun-of-35-years-says-prices-are-poised-for-record-highs>

<sup>15</sup> Fraud, cons and Ponzi schemes: did Sam Bankman-Fried use Madoff tactics?, The Guardian, <https://www.theguardian.com/business/2022/dec/17/sam-bankman-fried-bernie-madoff-fraud-ftx>

<sup>16</sup> Associates of Sam Bankman-Fried plead guilty to fraud charges after FTX collapse, The Guardian, <https://www.theguardian.com/business/2022/dec/21/sam-bankman-fried-ftx-associates-plead-guilty-fraud>

<sup>17</sup> How Sam Bankman-Fried Negotiated His Way Out of Jail, New York Times, <https://www.nytimes.com/2023/01/03/business/dealbook/bankman-fried-bail-jail.html>

<sup>18</sup> After FTX Is Binance Next To Face The Wrath Of U.S. Prosecutors?, Coinpage, <https://coingape.com/binance-us-prosecutors-anti-money-laundering/>

<sup>19</sup> New year, new crypto 'shake out', Financial Times, <https://www.ft.com/content/1081a584-3e86-4a65-bb31-cc5dc7098e7e>

<sup>20</sup> This 'crypto winter' is unlike any downturn in the history of digital currencies. Here's why, CNBC, <https://www.cnbc.com/2022/07/14/why-the-2022-crypto-winter-is-unlike-previous-bear-markets.html>

<sup>21</sup> 'They couldn't even scream any more. They were just sobbing': the amateur investors ruined by the crypto crash, The Guardian, <https://www.theguardian.com/technology/2022/jul/12/they-couldnt-even-scream-any-more-they-were-just-sobbing-the-amateur-investors-ruined-by-the-crypto-crash>

<sup>22</sup> Crypto.com to cut 20% jobs as industry rout deepens after FTX collapse, CNBC, <https://www.cnbc.com/2023/01/13/cryptocom-to-cut-20percent-jobs-as-industry-rout-deepens-after-ftx-collapse.html>