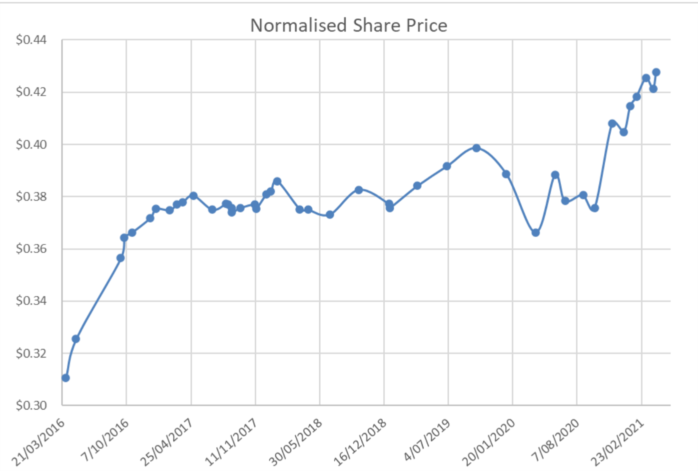
Investment Performance of Deployed Capital

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

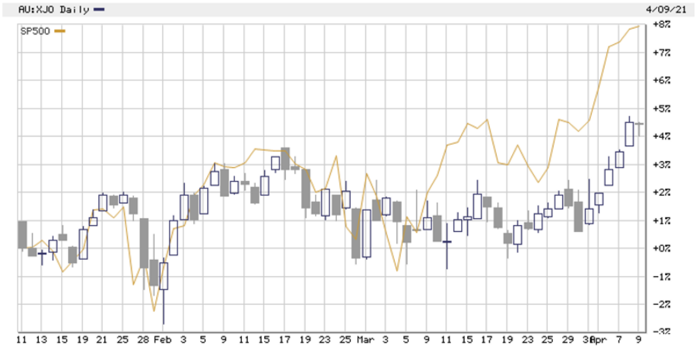
31-Mar-21 Snapshot		
Top 5 Equity Holdings	**Ave Entry Price**	**Market Price**
ANZ	$23.43	$28.18 (Q1 perf: $5.48)
BOQ	$7.96	$8.65 (Q3 perf: $0.91)
NAB	$19.01	$26.00 (Q4 perf: $3.40)
WBC	$16.18	$24.41 (Q4 perf: $5.04)
WPL	$23.28	$24.00 (Q4 perf: $1.26)
	Current Market Value	

FY21 Dividends to-date	
FY21 Interest to-date#	
Cash Holdings	

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



The Australia's share market (XJO) has spent almost the entirety of the quarter consolidating, once again lagging international moves (chart below). The local market did breakout at the end of the quarter and is currently trekking toward all-time highs. Regardless, through both our long-term holdings and (still relatively small scale) system trading, the normalised share price has steadily risen.



Synopsis

Not much has changed on the macro front. So we will keep it light as the theme remains unchanged. Market liquidity abounds with another round of fiscal stimulus transpiring this quarter. Joe Biden's recently passed stimulus package amounts to USD $1.9 trillion. This was greater than expected. The package was expected to be watered down to garner Republican support, but its value was a much greater than projected by the US Federal Reserve.[1] Economic growth projections were increased as a result. Biden is currently working on a USD $2.2 trillion infrastructure and jobs package.

Pull-backs in indices (which have been minor) have tended to coincide with "fears that stimulus will be pulled back". But there is no danger of this. Recall from the Q4 FY20 report: during Covid, the US federal reserve increased its balance sheet, in 3 months, by the same order of magnitude as during the first years post-GFC (>$3 trillion). So the markets are flush with liquidity and continuing to trend upwards into blue sky territory.

Fed policy remains accommodative. Pull-backs in indices, where they have occurred, have been minor and resulted from concerns the Fed was on the verge of reigning in the balance sheet. The NASDAQ corrected most out of the major indices. This is understandable, given it has been a constant outperformer. But the last FOMC minutes assuaged any fears of pulling back on stimulus, with meeting participants emphasising the importance of giving markets clear communication of how the central bank is assessing progress toward its goals. That is, the Fed will indicate 'well in advance' when it is considering a change in its asset purchase plan.

Locally, the Reserve Bank remains accommodative. The RBA reduced interest rate to 0.25% in March, the lowest on record. In its March policy statement, it declared it will do 'whatever is necessary' to support the economy.[2] This includes a $90 billion loan facility to local banks on the proviso they lend to businesses.

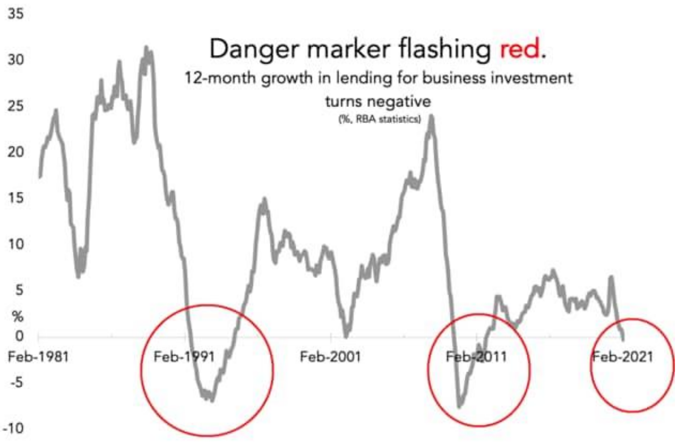
This is a rather poignant observation by the RBA the wealth gap between the haves and the have-nots in Australia is increasing. It is nowhere near the scale of the trend observed in the USA

[1] Biden's stimulus plan went beyond what the Fed expected, https://www.businessinsider.com.au/march-fomc-meeting-minutes-biden-stimulus-surpassed-federal-reserve-expectations-2021-4?r=US&IR=T

[2] 'Whatever is necessary': Australia dives into QE to save economy, https://www.reuters.com/article/us-health-coronavirus-rba/whatever-is-necessary-australia-dives-into-qe-to-save-economy-idINKBN2160GK

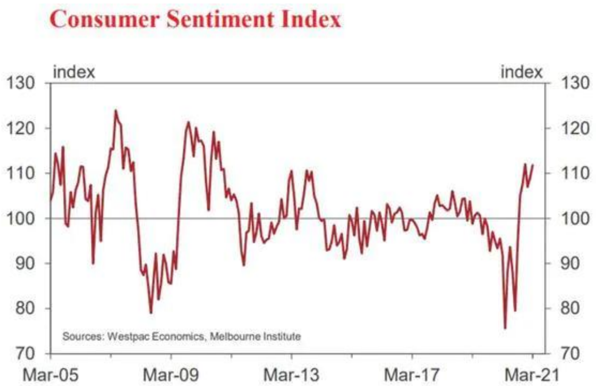
over the past decade, but it's there and it is reassuring that our institutions are seeing it.

And here is why the RBA is creating the above-mentioned business loan facility:



Recall last update where we pointed out that bear markets tend to begin when credit impulse becomes negative. The chart above reflects Australia only and the local stock market clearly is not noticing. But businesses need to invest in themselves to create jobs. Whilst some industries are booming, the bigger picture is bleaker. Nonetheless there are other factors behind stocks being buoyant; stimulus (global, not just local) and positivity around the vaccine rollouts.

Once consequence is very strong consumer sentiment which reflects a dichotomy with respect to the business lending above:

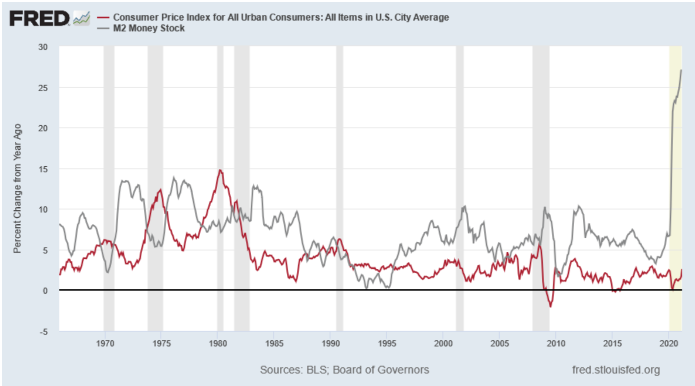


We discussed in the last update the correlation between stimulus cheques and the surge in retail trader participation in stock markets They are having similar influence on consumer sentiment. Unusual times continue and the (stock market) trend remains up.

Commentators are sounding upbeat on the economy. Deloitte Access Economic Partner Chris Richardson says "the world is looking better" and "Australia is looking better" economically this year, as the world begins its vaccine rollouts. But he caveated that stimulus needs to remain in place. If stimulus needs to be maintained, all is not well according to pundits who have had a close eye on history. Deloitte's own research indicates that wage growth will reach a new low of 1.2%.[3] Stimulus required indeed. The moment the markets sense a reduction in stimulus it is likely we will see tantrum. Outside of balance sheet 'normalisation', it looks like a black swan event will be required to trigger a bear market.

In the meantime, the US Fed has declared it is not concerned about inflation. Morgan Stanley's Ruchir Sharma observed that secular global deflationary forces have pushed CPI inflation well below their ~2% targets, resulting in super-stimulative monetary policy.[4] Although it has so far done little to drive CPI inflation up, it creates housing and financial market bubbles that the central bankers choose to ignore and which typically precede recessions. Well, sure that last bit is true, but economists, investment banks and blog economists have been touting this for the past 5-6 years. We believe it too but, as documented in these updates. But the Fed continues to win the argument.

Regardless, the consensus advice to be cautious remains valid. Why? The figure below is one example, comparing change in CPI vs M2 Money supply. Looks anything but usual does it not?



System News

We are continuing to test and increase trading with the system. We have been reviewing other offerings and note the trend toward freely calling algorithm system tools A.I. and trade bots now days.

While doing this testing, a management interface that funnels all alerts and key data to a dashboard for efficient QA analysis is also being developed. This interface is a cloud hosted webservice that interfaces with the trading platform (Meta Trader 5 in this case) and multiple brokers. 'Scanning the world', as we are currently doing, is generating alerts from a large number of instruments. As a result, it is challenging to take every verified setup. So, we are developing a 'smart' feature that will dynamically report on the performance of QA verified setups that were not taken, versus those that were, versus setups that the algorithms picked that we chose not to validate. Simple in principle, but not trivial with all the respective moving pars.

So far, the data is showing 71% of verified signals to be profitable. However, the real answer is more nuanced. This is just an assessment of alert data that assumes buying and holding

[3] Australia's living standards have risen and economy is 'roaring back', Deloitte says, https://www.theguardian.com/business/2021/apr/12/australias-living-standards-have-risen-and-economy-is-roaring-back-deloitte-says.

[4] The end of the party looms for markets high on stimulus, https://www.ft.com/content/ed6f883f-eaaa-4dfc-85cc-e7d79251c89b

from as long ago as November 2020 to-date. The reason for the adding features as described to enable tiered analysis in real time (as we proceed with trading) to supplement the back testing. To perform the tiered analysis manually is time consuming. So, the aim is to take advantage of the large amounts of real time data we are accruing using 'smart' features.

The back testing performed since code finalisation has verified the data and conclusions from the ~6 years of live testing we performed on the ASX200 from 2009 to 2015. But different approaches to position and risk management yield different results depending on the instrument. For example, applying the baseline approach for spot gold resulted in a whopping 13,597% tested return over 8 years. Applying the same configuration to EURUSD over its entire history yielded only 4%. Yet applying tighter target-based exits increases the return drastically for EURUSD but could reduce results for spot gold. Hence the value in seeking out optimal trading parameters.

Organisational News

During the quarter, we investigated joining forces with a corporate advisor to start an advisory firm, with subsidiary broking and fund management companies, and to roll Auduco into that as a unit trust. We were not in a position to agree to the terms offered in the time that the advisor required. It was an exciting opportunity that, unfortunately, does not work for all our participants at this time

Special thanks to the shareholders that assisted with reviewing the opportunity. Thanks also to the shareholder who introduced the opportunity. It may turn into something down the track. Will keep you posted.

Until next time.

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