AUDUCO

Q3 FY23 STATUS REPORT

"Our focus, trust"

"Accounting for every trade"

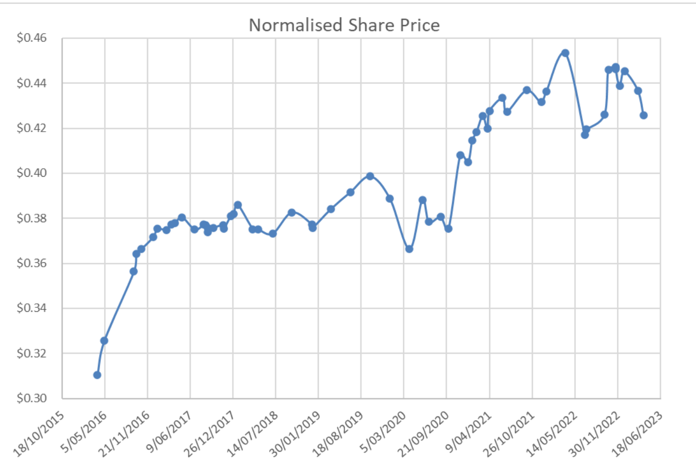
Investment Performance of Deployed Capital

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

31-Mar-23 Snapshot		
Top 4 Equity Holdings	**Ave Entry Price**	**Market Price**
ANZ	$23.43	$22.93 (Q1 perf: -$0.73)
BOQ	$7.96	$6.49 (Q3 perf: -$0.41)
NAB	$19.01	$27.72 (Q4 perf: -$2.34)
WBC	$20.09	$21.66 (Q4 perf: -$1.69)
	Current Market Value	

FY23 Dividends to-date	
FY23 Interest to-date#	
Cash Holdings	

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



All out major holdings were red for the quarter and the normalised share price is down accordingly. The local market benchmark, ASX S&P 200 (XJO), closed the quarter marginally up (3%). It had a strong start, followed by strong falls. If we widen our lens to ~4-5 months, the XJO has essentially been consolidating sideways. Also, trend of the XJO outperforming the US S&P 500 (SPX) over the past year has been broken. If our thinking is right, things are about to chance. More on this later. The chart below shows the XJO compared with US and European indices.

Synopsis

In terms of the macro situation, there is not much to add since the last update. Hence, there will not be much in the way of synopsis for this update. The big news for the quarter is the spate of bank failures over the course of 5 days in March, one of which was Silicon Valley Bank.[1] It was the second largest bank failure in US history and took just two days to occur. Bank deposits were not insured, it had many rich and famous clientele, plus a lot of venture capital clients. It was the VC clients who triggered the bank run.

The banking crisis predominantly involved small to medium sized banks, the first to collapse being one that evolved into being a cryptocurrency focussed institution, Silvergate Bank. Switzerland's Credit Suisse, which is subject to more stringent regulations and oversight than other banks, also ran into trouble. It was bought by UBS to 'help stave off contagion'.[2] Wall Street stepped in save a bank called First Republic,[3] while Silicon Valley Bank was acquired by First Citizens Bank.[4]

There was some fall out in the tech stock sector on account of Silicon Valley Bank, in addition to the ripples experienced across the global startup ecosystem.

Several central banks held off on further rate rises as a result, and generally started softening their stances on future moves. There is still more to come, but the jawboning has pivoted to 'the pace does not need to be as it was'. Locally, after 10 straight rate rises, the RBA paused on April, and the last US FOMC increase was 0.25% instead of the 0.75 and 0.5% jumps they have been taking. This aligns with our narrative the past few updates. A confirmed narrative is all well and good, but we need to see the corresponding price trends eventuate to benefit.

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[1] Here's how the second-biggest bank collapse in U.S. history happened in just 48 hours CNBC, https://www.cnbc.com/2023/03/10/silicon-valley-bank-collapse-how-it-happened.html

[2] UBS is buying Credit Suisse in bid to halt banking crisis, CNN, https://edition.cnn.com/2023/03/19/business/credit-suisse-ubs-rescue/index.html

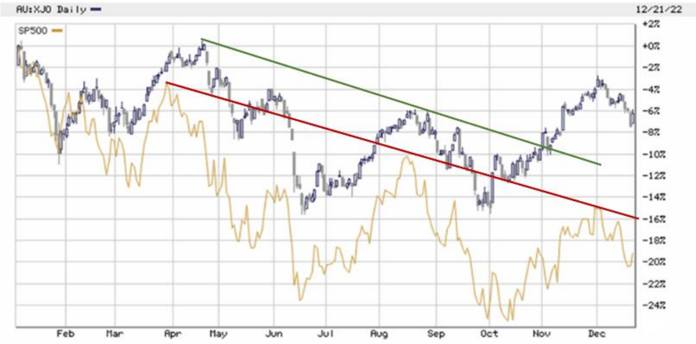
[3] Wall Street rides to the rescue as 11 banks pledge First Republic $30 billion in deposits, CNBC, https://www.cnbc.com/2023/03/16/group-of-financial-institutions-in-talks-to-deposit-about-20-billion-in-first-republic-sources-say.html.

[4] First Citizens Acquires Much of Failed Silicon Valley Bank, The Wall Street Journal, https://www.wsj.com/articles/first-citizens-acquires-much-of-failed-silicon-valley-bank-5a4545f

The direction we want to take this update is visual. To show some of the patterns that we have been watching and positioning around to profit for what we see as a new leg up with markets.

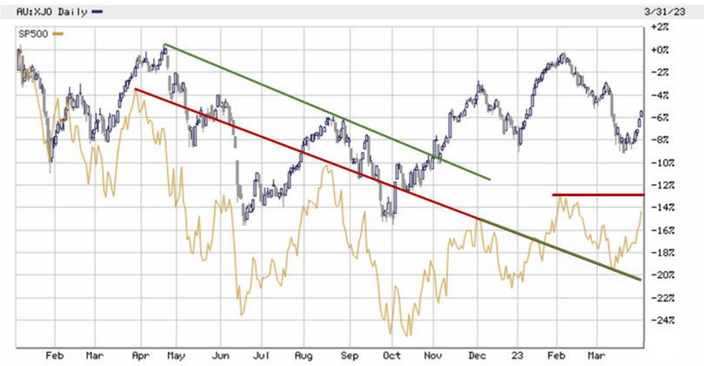
The chart below is what we showed in the last update (Q2 FY23) to provide a visual of the XJO's outperformance of the S&P 500 last year. (As a side note, European indices outperformed the XJO and, from the chart above, continue to do so.) This time the chart has superimposed two downtrend lines:

- A Green line applied to the XJO, which was breached in October;
- A redline applied to the S&P 500, which was not yet breached as of the year's close.



Breaching of downtrend resistance lines is a what we look for to signal a possible return to bullishness. Confirmation is sought after this point, but these breaches are what tell us to start focussing. Until then excessive focus tends to prove to be a costly bias and distraction.

Fast forward to now and this is how the charts look:



We can see the XJO has largely followed a sideways consolidation since it crossed the downtrend line. (The S&P 500 has too.) However, it remains above the broken trendline.

The S&P 500, whilst taking longer to cross and feeling like it is taken the scenic route, exhibits what we regard as rather clean price action; after breaching the downtrend line, it has retraced, tested it and cleanly (and promptly) rebounded off it. This is bullish. When focusing on the daily and hourly price movements, it has remained choppy and, post the chart period shown above, this has continued with price ranging between supply (at the red horizontal resistance line just above the price action) and the 200 simple moving average (not shown).

So for all the noise about inflation, freight recessions,[5] excessive inventory on the back of pandemic stimulus and resulting spending,[6] etc….price is the next sum of everything and things are looking quite bullish.

Could it break down? Sure. But with all that stimulus out there, our current thinking is the predominant negative possibility, stock market-wise, is continued sideways consolidation which would frustrate a lot of swing traders and investors.[7]

We have been taking some US (and European) trades since the downtrend resistance breach. The result has been a fair amount of whipsaw, predominantly from holding on to allow for continued break out and subsequent price runs, which hasn't happened for us yet. The net result has been a slight decrease in account sizes. Not ideal, of course, but well worth the risk. A break above the red supply line will be a signal to buy with more conviction.

We have had some positions in gold and silver (and sometimes platinum too) during this period and the positions have gone well (current positions shown):

[5] The economy is in a 'freight recession,' with China trade decline continuing, CNBC, https://www.cnbc.com/2023/04/24/economy-is-in-a-freight-recession-with-china-trade-heading-lower.html AND Where the trucking and rail recession is showing up in the logistics data, CNBC, https://www.cnbc.com/2023/04/28/where-the-trucking-and-rail-recession-is-showing-up-in-economic-data.html

[6] The most important thing Warren Buffett said Saturday, and it isn't good news for the economy, CNBC, https://www.cnbc.com/2023/05/08/the-most-important-thing-warren-buffett-said-saturday-and-isnt-good-news-for-the-economy.html

[7] Recall, the market has been stubborn in not actually going downwards for long sustained periods since 2008. Covid was very short (in duration) and sharp for equity and commodity markets, for example. There was a flash crash way back in 2011 and a blip or two over 2017/2018. Last year's correction was relatively long in duration but was relatively shallow. It's the closest to a traditional correction we have seen for a long time.

The above charts are good news stories in that they are all looking relatively bullish, tracking to medium term trends. They have not looked this positive the for the entirety of this inflationary period. All three, gold and silver in particular, are considered go-to instruments in times of uncertainty and high inflation. Gold is often, but mistakenly, used to hedge inflation under the belief that gold will appreciate and offset inflationary pressures. This relationship is tentative at best, as gold can be caught up in a risk-off commodity slide and decline with other commodities. Evidence of that tentative correlation is what we are seeing now. Despite the highest inflation in decades they have been knocked about over the past couple of years, experiencing some sharp reversals followed relentless corrections. As the prices stand currently, gold and silver are in multi-year sideways consolidations. Consensus thinking is that price should go up.

The key factor knocking these commodities about is central banks and their rate increases. Reason being, as we have flagged several years ago, is investors will commence looking toward assets that generate yield. These commodities do not offer any yield. In fact, they cost investors money to hold them. Plus, they only really tend to appreciate when real economic growth rates are negative, as we suggested several years ago. We could be close to seeing negative real growth about now.

One empirical clue is gold's performance this year. It has been relatively resilience and has maintained a positive trend, more so than silver or platinum. It is sitting around its all-time high at the moment. We just need it to break out into new blue-sky territory to confirm.

We will finish up with a Buffett Indicator snapshot. From the same source as usual.

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