



Elon-exuberance

Alvia Asset Partners Investment Team Insights

December 2020 Quarter



A brief message from the CIO,

I think we can all agree that 2020 was an all-around atypical year and it is entirely possible that the strangeness will carry through well into 2021. The Christmas holiday period was certainly well earned and deserved, with plenty of material to reflect upon.

As I was enjoying the Christmas ham, I did a lot of pondering over what is absolutely essential and what's a mere distraction. In the context of investing, short term distractions can have profound impacts on returns. Focusing on the 'essential', however, coupled with a tone of patience and healthy self-awareness can really enable long term compounding of wealth. Whereas boredom and excessive activity due to distraction can untangle long term compounding. It is fair to say those that displayed ill-discipline in 2020 suffered on a net return's basis.

With the benefit of hindsight, most of our big investment mistakes result from being 'bored' out of an investment into something newer and fresher – when almost always the big money is made by lethargically sitting in something and sitting out of something else. It is important to let the trash bin fill itself with the 'too-hard' to save yourself from yourself. In a similar vein, one can significantly improve discipline by simply saying 'I don't know.' So much time is wasted forming views on things that simply do not require a 'view.'

Here are my top four Christmas 'view' requests:

- Where does the market go in 2021? No reference to which market or what – just the 'market' – this question is an absolute bomb and a shocker... **Best answer: 'I don't know.'**
- What do you think of Bitcoin? **Best answer: 'I don't have a view.'**
- Any thoughts on interest rates? **Best answer: 'They are certainly historically low today.'**
- Should I buy X? **Best answer: 'That's one I don't know much about.'** (Even if you have spent the last 8 years researching it)

You simply cannot win answering any of the above and it is really a mental drain game. **You take a view; you are wrong, and they never forget. You are right, they forget anyway. There are no winners.**

New normal? Or just Abnormal?

We find there is a natural human tendency to extrapolate recent events. This provides the potential for amazing investment opportunities should mean reversion occur.

COVID-19 is one of these events. It is fair to say plenty has been written about COVID-19 and its future consequences based on changes to collective human behaviours. It is very difficult to separate temporary changes from those that are permanent in nature.

New Normal?

- New digital habits have been formed. COVID-19 has likely increased the prevalence of established digital propositions such as Facebook and Alphabet (Google) via YouTube and dare we say it... Netflix.
- New lasting habits should exacerbate further migration from the real world to the virtual. However, there will be an element of nuance around this.
- 'Bricks and Mortar' will continue to leak to online retail and more financial services activity will continue to migrate from branches to the home/phone. However, there will be winners amongst the legacy old-world names on a consolidation basis and a potential migration to the premium end of the offering. This is not to say it will be 'the end of all' but rather an 'awakening' that has been long required for these legacy names.



Abnormal?

The death of travel?

- Both leisure and business travel activity fell to near zero in the northern hemisphere Autumn. Business travel has barely recovered, and leisure travel has primarily been limited to small out of town trips.
- We acknowledge Zoom activity has increased and will likely remain at a higher level than pre-COVID-19. However, our view is this is not an adequate substitute for the alternative. Especially on the leisure side. Humans crave and need 'experiences'.
- Even on the business side, the corporate world is built on 'relationships'. This view is demonstrated through our belief in our long-term holdings **American Express (NYS:AXP)**, **Booking Holdings (NAS:BKNG)** and **Corporate Travel Management (ASX:CTD)**.

Investor Sam Zell put it succinctly with regards to the corporate side of travel:

"when everyone is connecting via Zoom, someone is going to get on a plane for a face-to-face meeting and they will win the business." "We can't wait to resume travel to meet in person with our clients and management teams. We think business travel will be robust in 2022."

- Coming out of COVID-19, we could actually see an above trend rebound in travel as many emerge with a sense of freedom.

Death of the office?

- Humans thrive and need interaction and collaboration. Most are ambitious and want to progress. Try climbing the corporate ladder in your PJs at home – it's not happening.
- Your 'home' version is perceived inferior to your 'in person' version every day of the week.
- It might work for some roles but not all.
- We believe most people will be in the office post vaccination as there is a reversion to the mean over time.

In short, we tend to think that the 'new' normal will look like the 'old' normal but will take time to equilibrate. We remain open minded around this thesis but we will let the data prove us wrong over time. And if that is the case, we are happy to stand corrected.

Fed Capital Partners – the hottest new investment fund

- There are several large dominant investors in the world. Central banks are effectively becoming hedge funds with a diversified array of assets. Some more diverse than others, such as Japan.
- Most funds need to earn new capital via capital diligence and a performance track record, whereas central banks can create any amount of money at a couple of clicks of the mouse!

Again, this isn't normal!

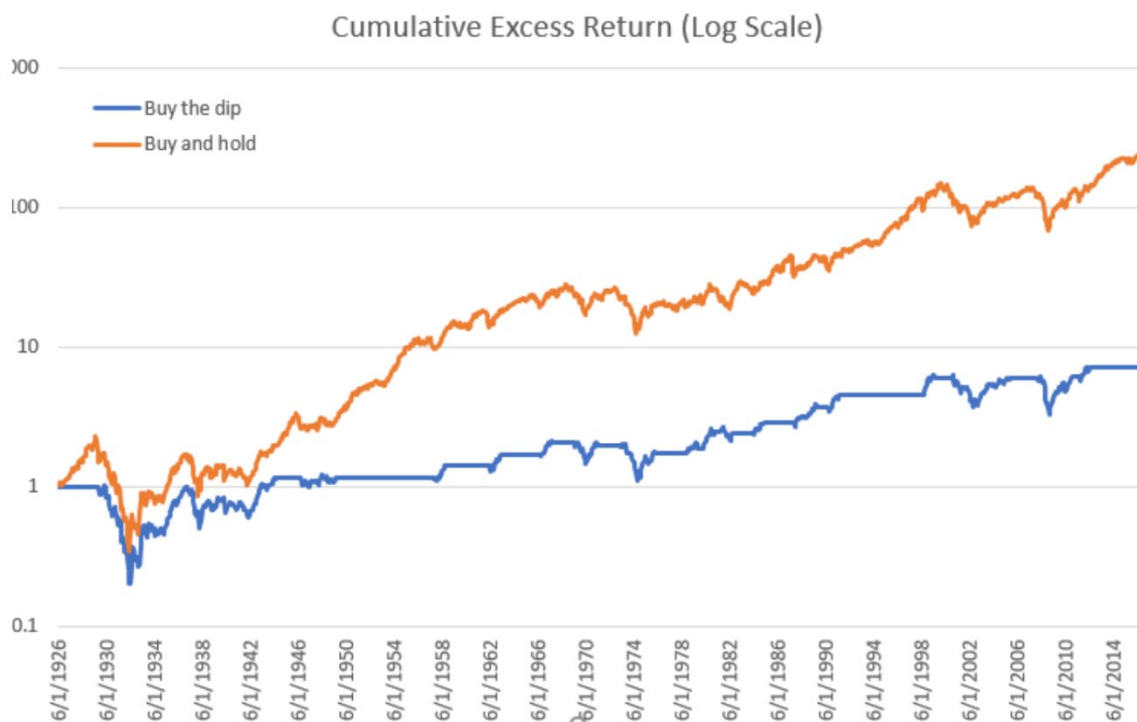


Reinforced learnings for Alvia in 2020

Remain humble – conviction is different to confidence. It is ok to have conviction, however, it's not ok to be arrogant. Overconfidence is very dangerous and 2020 reinforced this over and over.

Remain disciplined – All good things come to an end eventually. The last time the Nasdaq returned numbers like it has over the past few years, capping off with a 40%+ gain in 2020, it took 15 years to recover its decline. Fundamentals matter in the long run.

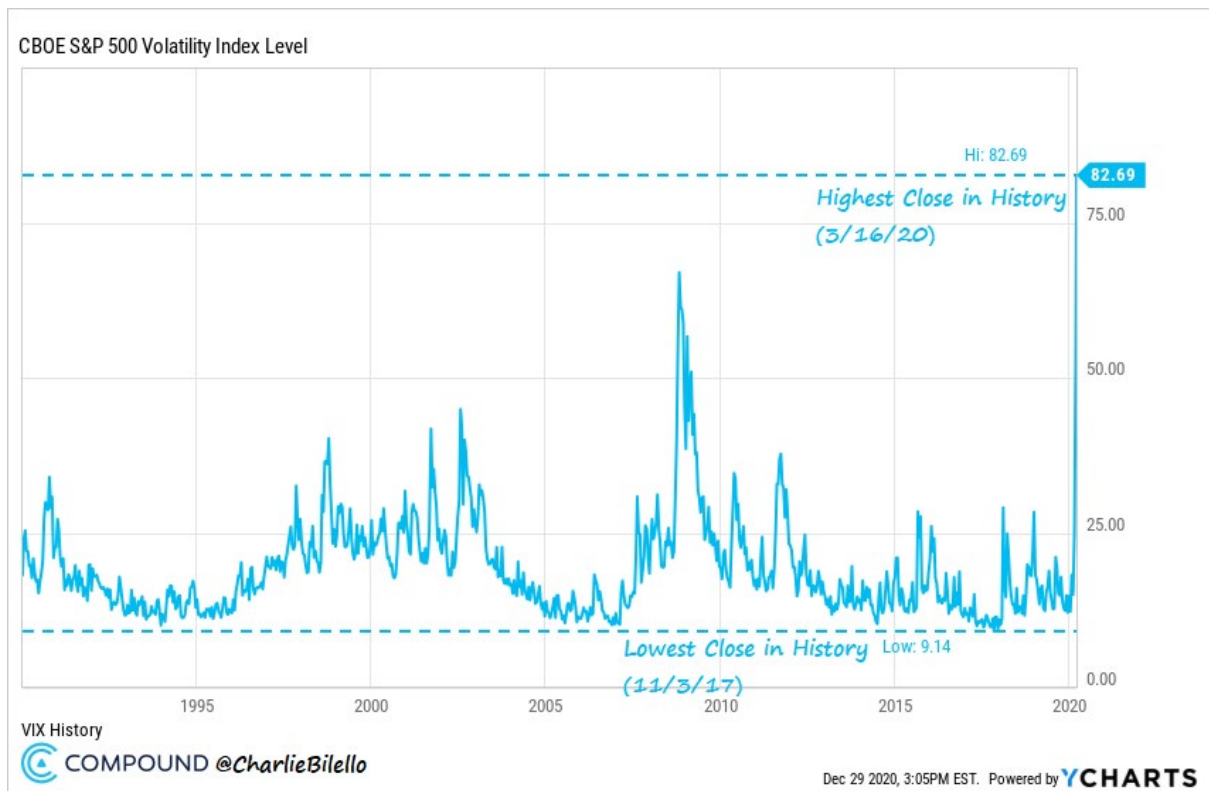
Time in matters most – It's smart to be flexible but ultimately, it's time invested that matters the most. Be invested and stay invested. **Buy and hold works!**



Source: Michael Batnick "The Irrelevant Investor"



Don't waste a crisis– deploying long term capital at high points of volatility is an absolute must. Do not freeze – let volatility work for you, not against you. It worked this crisis and during every other crisis.



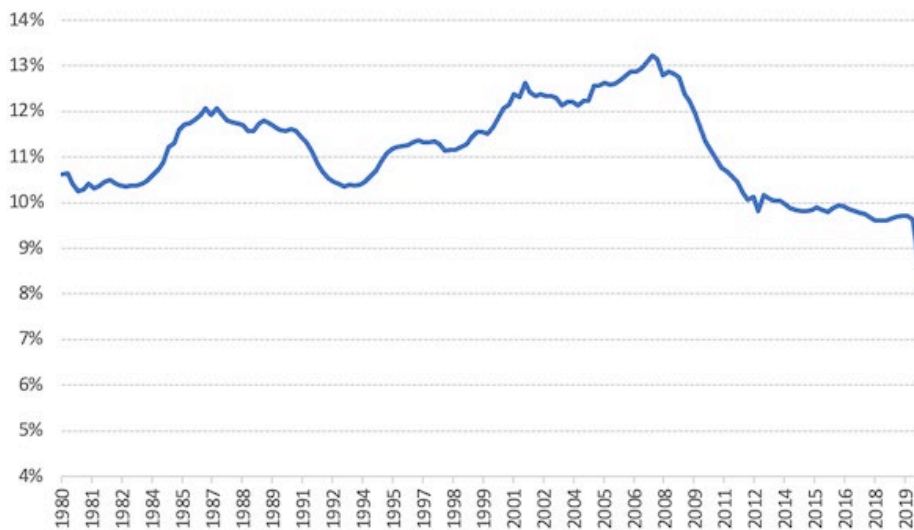
Source: Charlie Bilello



The privileged depression (for most)?

- Morgan Housel highlights that 2020 was the best year for income in American History. By far. It is not even close.
- This is very different to the 1930 alternative which saw savings plummet – the difference being the rapid monetary and fiscal response.
- The US savings rate (ours as well) hit all-time highs in 2020 – which is truly amazing.
- Debt servicing has reached all-time lows, meaning that consumers have freed up personal balance sheet capacity
- Today a \$500,000 mortgage has the same payments as a \$300,000 mortgage in 2007. It is easy to see why asset prices climbed in 2020.
- American households have \$1 trillion more today than 12 months ago.

Household Debt Service Payments As A Share of Income



Personal Savings Rate



Source: Morgan House



Sadly, we are also seeing the extreme disparity on individual circumstances.

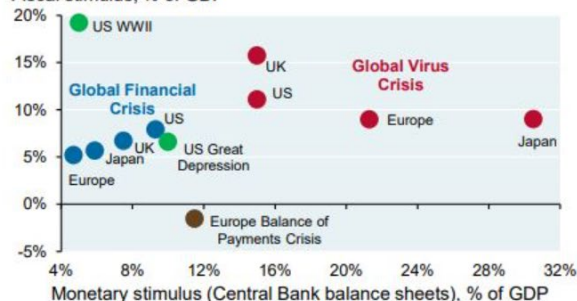
- Petty crime is on the rise whilst tech entrepreneurs quibble about the functionality of their new watches.
- **We aren't sure of the answer to this dispersion, but history suggests that politics will always try to address the extremes and higher taxation of the lucky ones will certainly be on the agenda.**
- Redistribution policies are the political response with the least friction.

The scale of stimulus is truly remarkable

- Positive for markets and inflation

Stimulus response to COVID sets a new bar

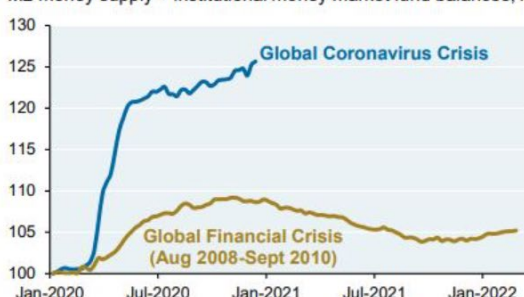
Fiscal stimulus, % of GDP



Source: Central bank sources, OMB, St Louis Fed, JPM Global Economic Research, JPMAM. December 2020.

Faster growth in the money supply this time around

M2 money supply + institutional money market fund balances, index



Source: St Louis Fed, J.P. Morgan Asset Management. December 14, 2020.

- It is apparent that recency bias suggests that inflation is not on many minds at present.
- **However**, we believe it is a **real risk in the future**.
- Inflation is a monster that quietly and steadily erodes the wealth of the majority and especially those that are not prepared.
- Recent events including unprecedented monetary and fiscal responses with the potential for a successful vaccine could just have awoken the sleepy monster.
- The monetary stimulus program in the US has added \$8 trillion to the economy in just 8 months, on top of a reduction of 1.9% in rates. We are basically living a trial of modern monetary theory (just print more money as and when required)
- Fiscal programs are almost too large to imagine.
- Our view is that many investors are very long low inflation via tech with future growth at any price, which has a multitude of risks.
- Add to that long duration bonds at zero which makes no sense in our opinion and any increase in inflation poses a real problem.
- As Milton Friedman famously said 50 years ago: "*inflation is always and everywhere a monetary phenomenon.*"
- It is fair to say we have never observed money supply growth as high as it is today.
- There is also a government incentive to spark inflation as it is the obvious means to shrink its debt, where inflation makes existing debt less in real terms.



Efficient Market?

Our latest example challenging this (and there are a few around) was when Elon Musk tweeted "Use Signal".

A tweet in response to the rumours circulating that WhatsApp was sharing data with parent company Facebook. Naturally, the retail market looked to profit and started to buy the listed company Signal Advance.

This retail money purchasing Signal Advance pushed the market cap from \$6million to \$739million.

The problem is Signal Advance is a small healthcare company that has no relationship to the messaging app. In line with the title of our write up we are seeing a lot of *Elonberance* around.

Now we don't like to beat down on people or business successes, however we saw a tweet recently that made us a little queasy.

To us this type of irrational market where people push the price of the wrong company from \$0.60 to \$38.70 because of a tweet has us seeing more of the **inexperienced neighbours getting rich**.

Jason DeBolt (as per his twitter account below) appears to be a real person who has significantly benefitted from the hyperbolic movement in Tesla's share price. The problem with this type of 'investor' is that they lack the experience or humility to acknowledge if this was luck or skill... What risk did Jason incur to go all in on Tesla?

There are 150 US non-microcap companies (meaning a market capitalisation of over \$250million) that more than tripled in 2020... **that is not normal**.

It can be very difficult to stick with your own investment plan when you see "your neighbour" hitting the 'temporary' jackpots left, right and centre.

- However, we think normality will progressively return, interest rates will rise most likely in light of heightened inflation – so maintain your risk budget, stick to your plan and don't let people like Jason derail you.
- If you feel exposed, reconsider your risk curve -maybe early stage VC doesn't deserve an overweight position right now
- You only need to get rich once after all, and 'rich' is subjective and relative to what you need.



Jason DeBolt ⚡
@jasondebolt

Today I'm retiring from the corporate world at age 39.

Not selling any shares for the foreseeable future. [\\$TSLA](#)

\$11,944,889.23

Accounts (6 of 6)

\$904,216.50 (+8.04%)

*Today's Gain/Loss***



Alvia long term view

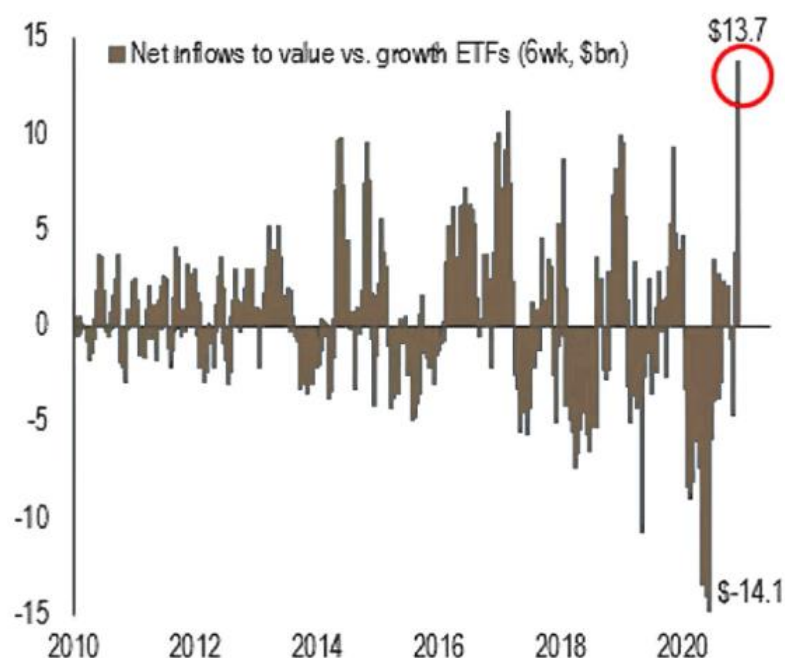
We do not think it is fair to criticise Jason without at least putting ourselves out there. We aren't normally betting people, however, in this circumstance we are willing to bet that 10 years from now, fundamental value stocks will have greatly outperformed growth orientated stocks (those currently non-earning) and that those smaller capitalisation stocks outperform their large capitalisation counterparts. The next few topics will delve into why we think this way.

The greatest companies don't always make the greatest investments – the price paid for the greatest is a very important factor.

Value not so dead? (How many times has this been said before)

- Value investing is not defined by buying on a low PE or low price-to-book in our eyes.
- It is the art of discounting the future unknowns sensibly to ensure you maintain a sufficient margin of safety (in case a curveball comes your way...for example COVID-19) – to us it is rational investing not value investing.
- 2020 saw the most articles titled 'Value is Dead' ever in history.
- It appears that a large amount of passive money has flowed into value.

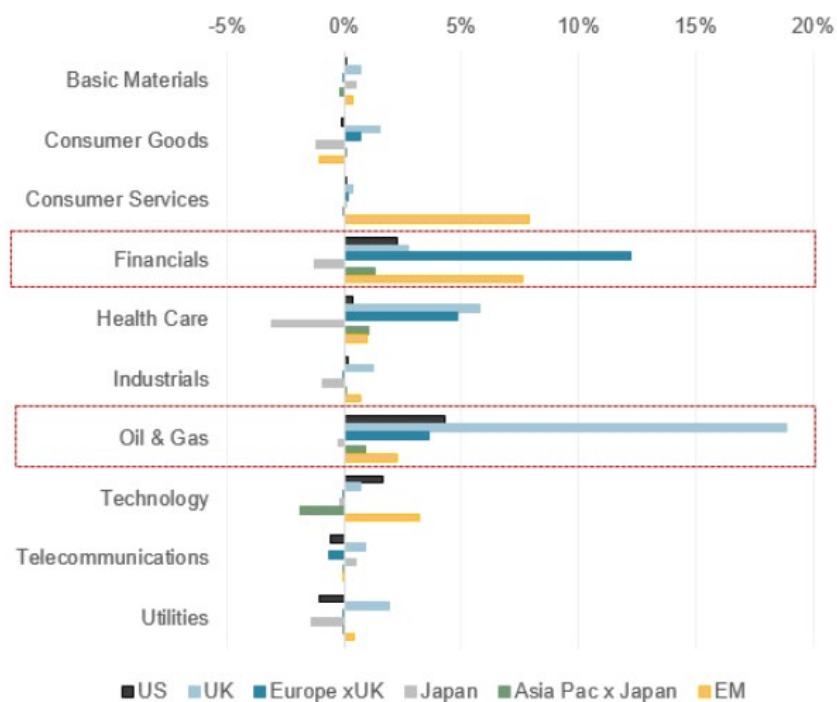
Greatest inflows to value vs. growth ETFs in history



Source: JP Morgan

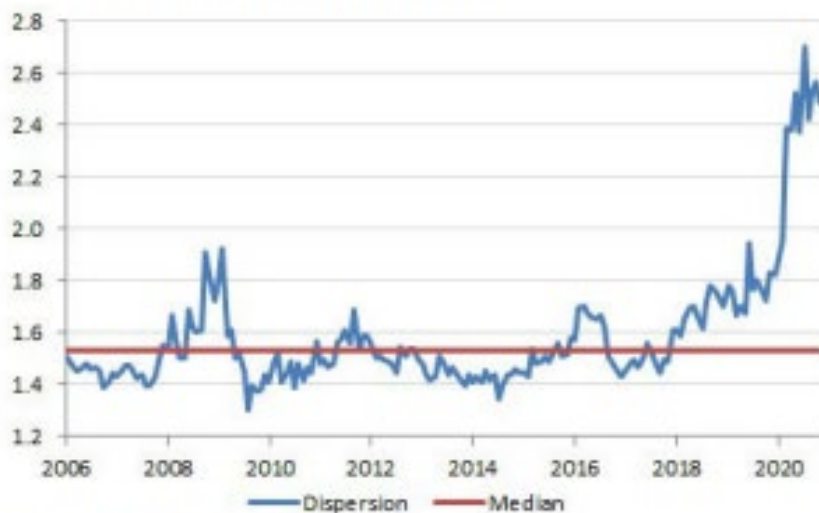


Value industry-allocation contributions to returns (November 2020, LC)



- Investors/allocators are a fickle bunch and if the above continues, so will capital flows
- This dispersion is the greatest we have seen over the past decade

Growth versus Value Dispersion

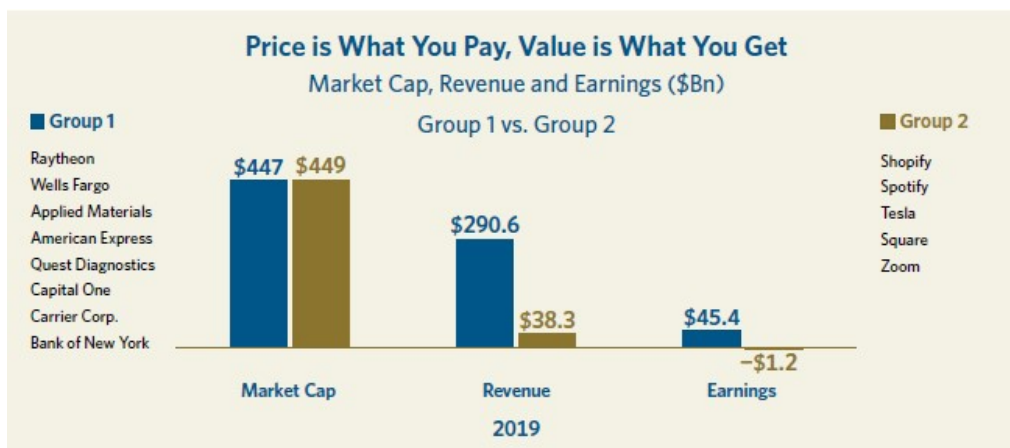


Source: UBS Quant & Strategy



The risk is paying now for earnings that don't actually materialise at the expected growth rate!

- We own some of Group 1 but none of Group 2

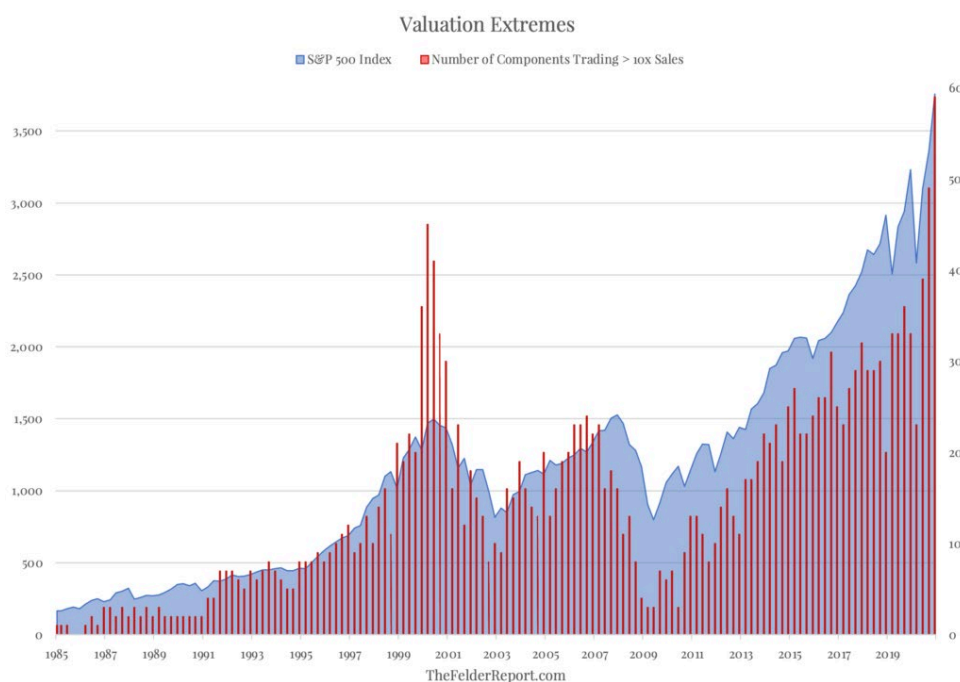


Source: Oakmark Funds Management

US Valuations

- Without a doubt we are at a pointy end of valuations
- Whilst we still manage to find hidden value there are extreme pockets of lunacy occurring.
- This intense speculation is ultimately fuelled by a 'greater fools' proposition which is the dangerous game of hoping someone else pays more.

Jeremy Grantham puts it very succinctly: *"The one reality that you can never change is that a higher-priced asset will produce a lower return than a lower-priced asset. You can't have your cake and eat it. You can enjoy it now, or you can enjoy it steadily in the distant future, but not both – and the price we pay for having this market go higher and higher is a lower 10-year return from the peak."*





The monster risk under everyone's bed!



Source: Bloomberg Businessweek

It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so

Only in April 2020 the 5-year inflation view was near 0%, how quickly this has been moved to over 2%. Moral of the story – **when it moves it can move quickly.**

We believe inflation exists already!

Most people consider inflation to be a reflection of rising consumer prices but there are really three types of inflation.

- **Monetary inflation** – which is basically just the inflation of the supply of money (as below). This is obviously occurring as below in the US. It cannot be argued that the supply of money in circulation in 2020 was exceptional.



Source: Federal Reserve Bank of St. Louis

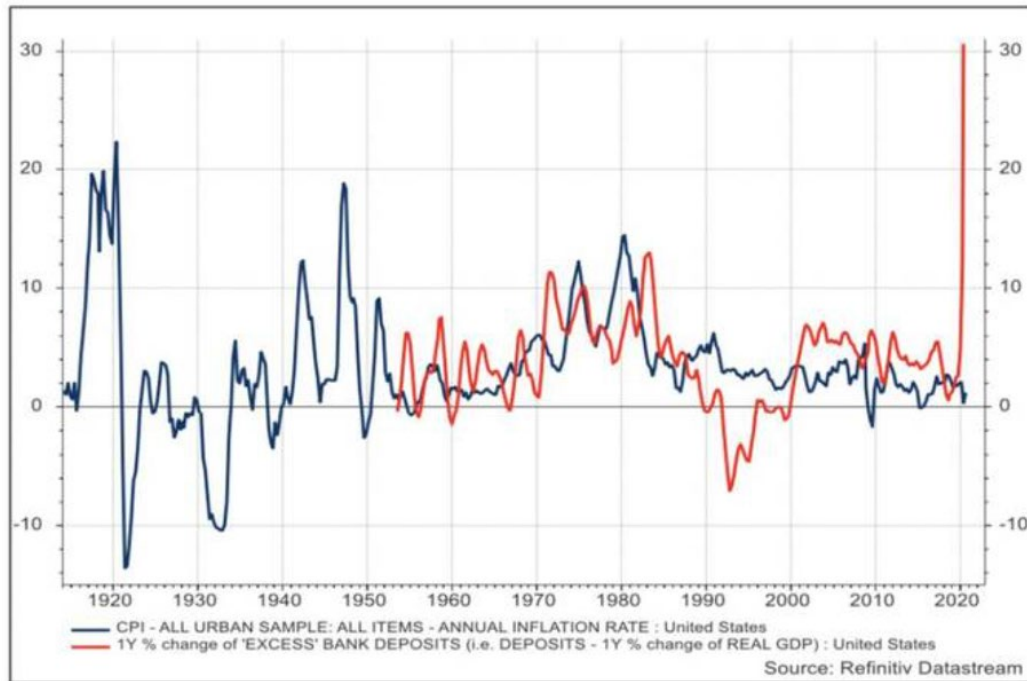
- **Asset price inflation:** this involves positive price momentum in all assets inclusive of shares, property and bonds – its apparent that almost all asset classes have grown in recent times (see US home price index below).



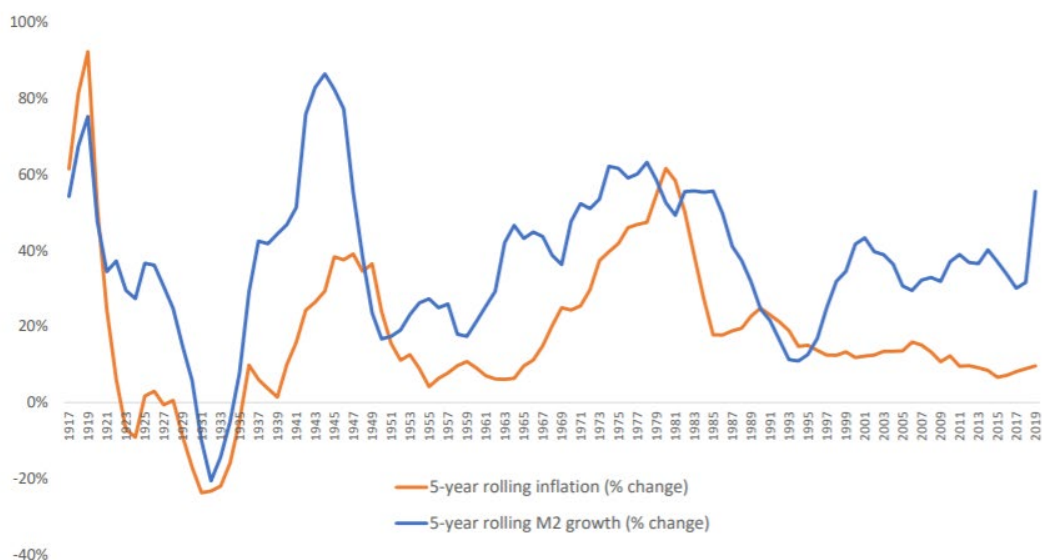
Monetary inflation and asset price inflation go hand in hand as monetary inflation makes capital easy and reduces discount rates which results in higher asset prices.

- Finally, **consumer price inflation** relates to price increases in our everyday bucket – in some ways this flows on from asset price inflation via the wealth effect, but it really comes about via wage growth (the current missing piece of the puzzle) but for how long in light of the above.

As per the below – fiscal policy has just topped up the aggregate bank account. Spending tends to follow, and it is already. Take a look at the latest results from **Nick Scali (ASX:NCK)**, **Adairs (ASX:ADH)** and **ARB (ASX:ARB)** (all of which we have been lucky enough to own).



As apparent below – can this breakdown hold?



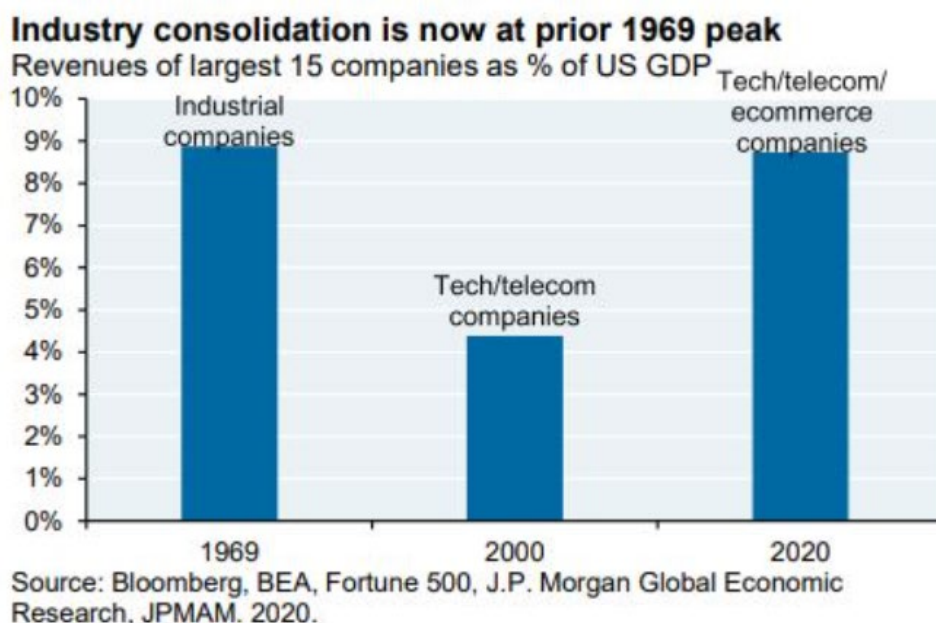
Source: Federal Reserve, longtermtrends.net

Dominance can be cyclical?

- US tech will not always be the only game in town and we believe markets generally over time even themselves out. The Nasdaq hasn't experienced a decent decline in a decade and with this, complacency continues to increase with every passing day.



- The median self-made investor holding a tech basket hasn't ever experienced a price decline and it's amazing how fickle new investors can become as prices start to migrate back to the mean (which they tend to do).
- We are seeing the highest level of consolidation since 1969 and hence Antitrust conversations are growing louder.



Investing is a three factor consideration

Quality, valuation and growth prospects

- Quality tends to be our first port of call before we consider valuation of which future 'growth' forms a part – however estimating growth tends to be the trickiest part.
- Quality tends to be in the eye of the beholder but in our opinion, it manifests in businesses with an ability to leverage their retained earnings to consistently compound upon themselves due to some inherent competitive advantage.
- We still feel that our portfolios can deliver attractive returns over the coming years given our focus on these factors in unison with a cautious valuation mindset.
- We combat current high valuations and elevated expectations by maintaining quality and value discipline and holding more cash than normal to ensure we are ready and posed for volatility.

It's easy to look smart in a bull market but we aim to look our smartest in a down market.



Tesla and Robinhood

Our opinion on Robinhood is that it is quite possibly a disaster waiting to happen.

- We see new speculators in control at present.
- Some of the trading activity is out of this world terrifying and in our opinion only being exacerbated by Robinhood which is gamifying this increased speculation.
- Sadly, these speculators will end up with glass in their eyes and never return to the market.
- They will preach to their children that the market is a 'casino' and that is only because they treated it as such.

VELOCITY OF OPTIONS TRADING AT LEADING RETAIL BROKERS

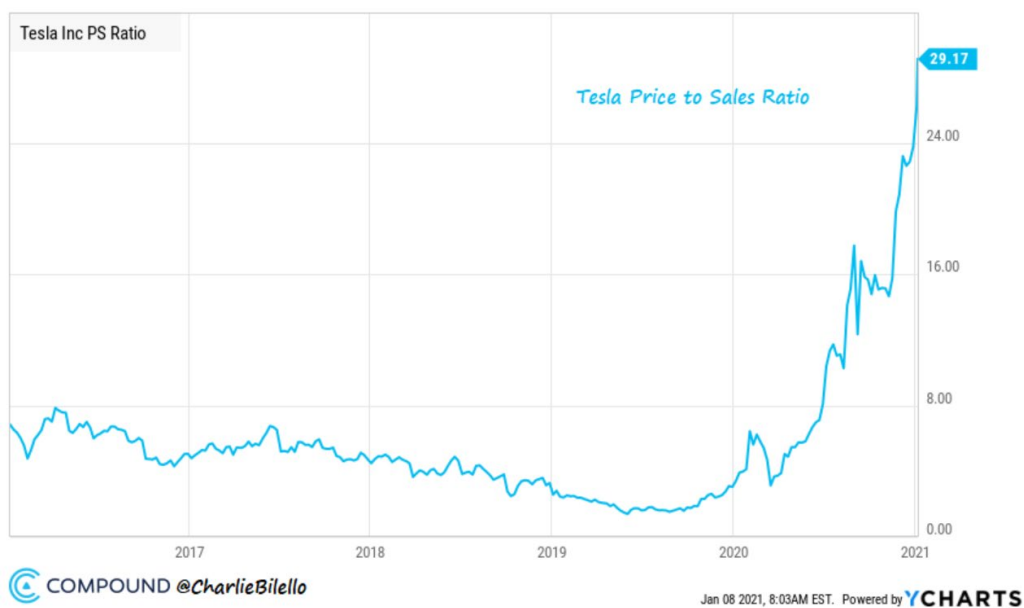
Q1 2020, OPTIONS CONTRACTS TRADED PER DOLLAR IN THE AVERAGE CUSTOMER ACCOUNT



SOURCE: ALPHACUTION VIA NYT

We feel *Robbinhooder's* firmly have their hand on the steering wheel at Tesla. We regularly talk about this as it was our view that it looked very overvalued in April... we have no words for what it is today.

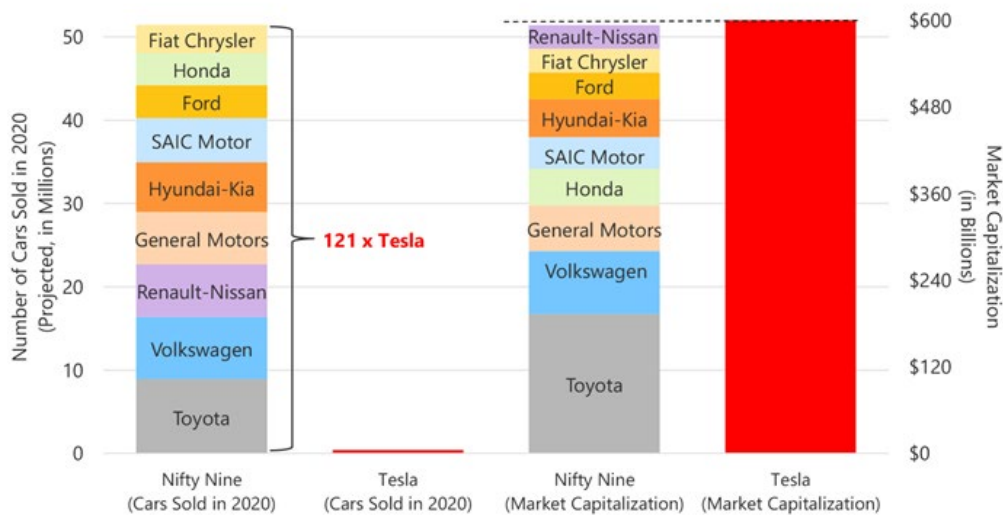
The *Elonberance* factor is truly at play here.





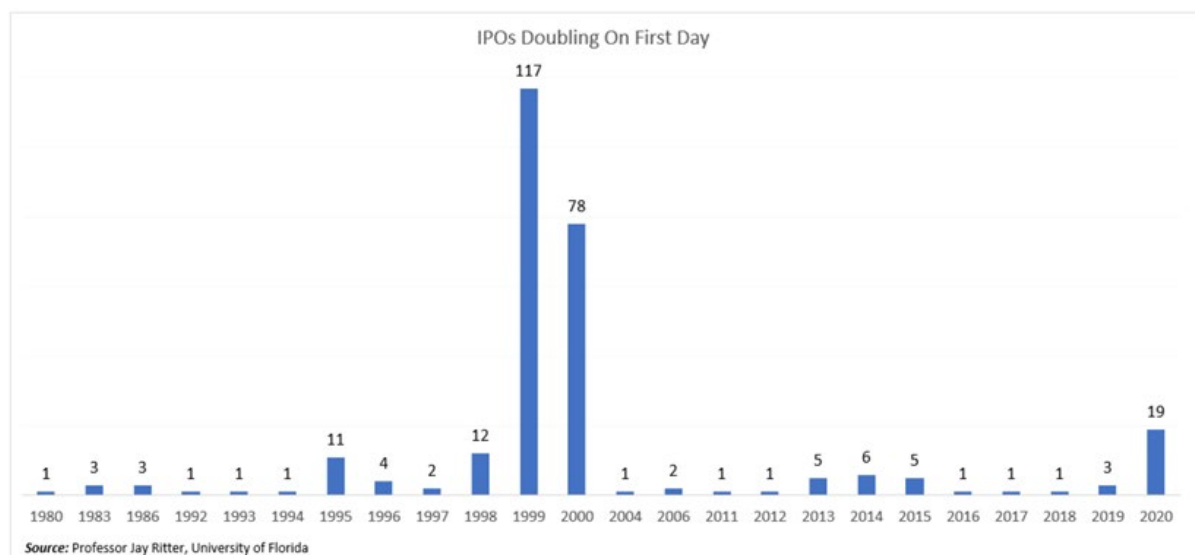
Source: Charlie Bilello

“Nifty Nine” Carmakers, Sales, and Market-Cap Compared to Tesla, as of December 7, 2020



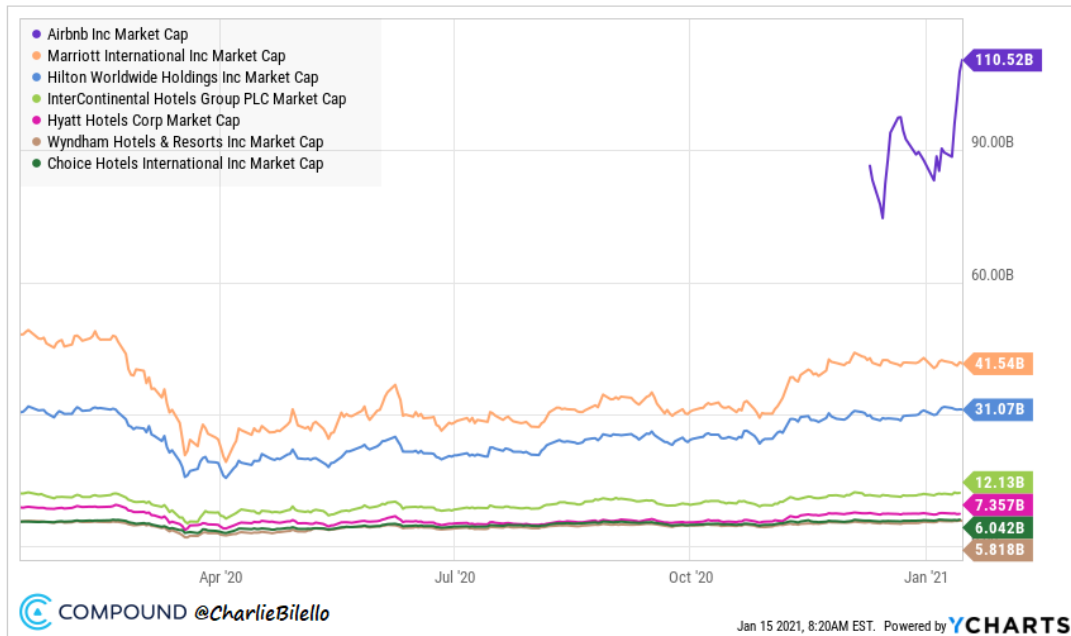
Source: Research Affiliates, LLC, based on data from Yahoo Finance, Ychart, and financial reports published by Tesla, Toyota, Volkswagen, Hyundai Motor Company, General Motors, Ford, Honda, Renault, Nissan, and Fiat Chrysler Automobiles. Market-capitalization numbers from Yahoo Finance and Ychart exclude treasury stock.

How about the 2020 IPOs



Airbnb, Doordash and eating out on incumbents

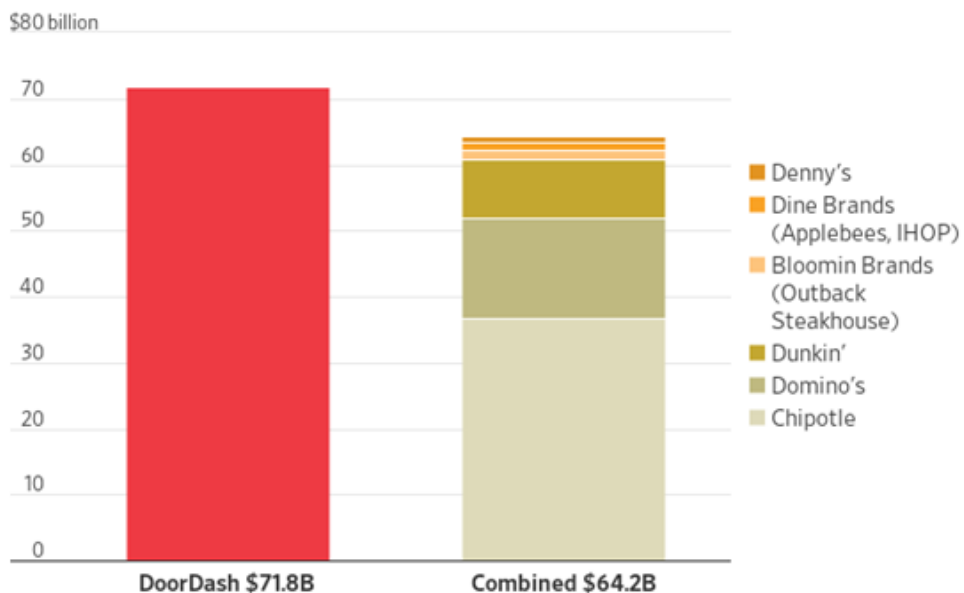
- Does this defy rational minded logic? Perhaps they all win over the long term but what happens when the market prices victory in on day 1? **Risk...**
- Speculators are assuming a base case of market disruption and whilst this is possible, it isn't guaranteed.



Stacking Up

DoorDash's market value is higher than that of several popular restaurants.

Market capitalization



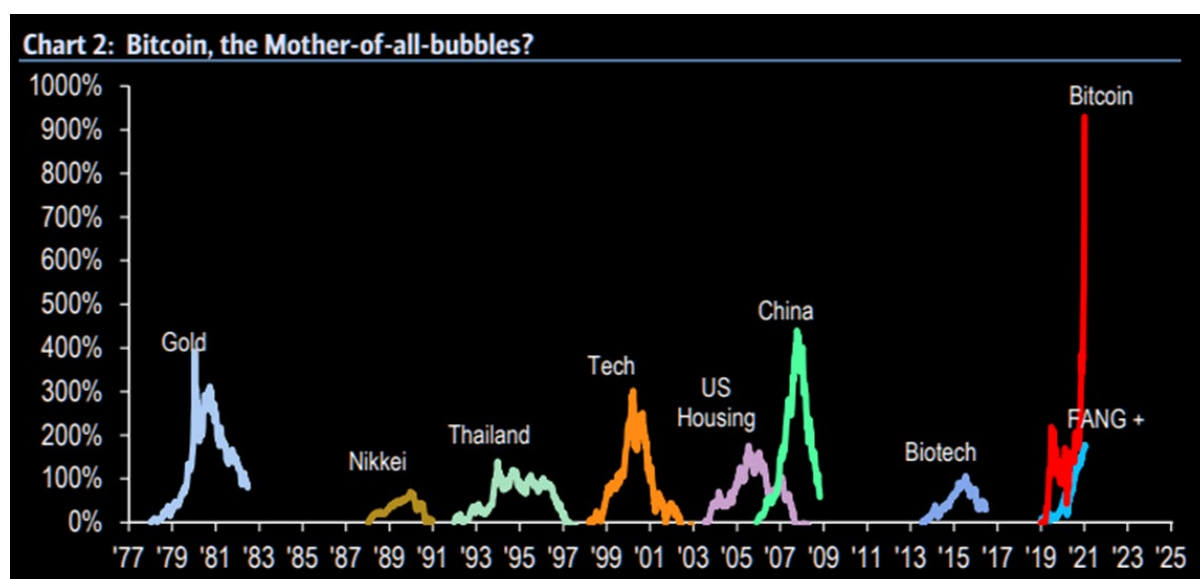
Sources: FactSet; WSJ calculations

DoorDash's stock price jumped 86% on its first day of trading, valuing the food deliverer at more than \$70 billion, [higher than many of the restaurant clients it serves](#).



Stop calling it 'The Coin'

As more news outlets start to talk about investments, more people start to think it is a great investment. This period reminds us of 2017/2018 when Bitcoin hype was last at its peak. We are frequently asked what our thoughts on Bitcoin are – as we did back then, we always reply with: “where are the fundamentals” ... we typically receive the same response of a confused face saying “fundamentals?”.



Bitcoin is almost a religion in its following: established by a prophet like figure (unidentified) backed by sacred text (Winklevoss twins tweeting) with many disciples, it even has its own holiday celebrating its establishment.

- Its disciples favour it to be the future of the safe-haven currency – we are not sure if we would want our safe-haven currency to have such volatility.
- The disciples then point to the scarcity being a bull factor – just because something is scarce does not make it valuable – one’s earwax is semi scarce, but it is certainly not valuable.
- There exist very limited barriers to entry with the number of cryptocurrencies that can exist.
- It appears to have a mind of its own, whilst it has no intrinsic value it could seriously go anywhere.
- The scariest part about it – as it becomes more mainstream, we are starting to see some large investors buy in. Our investment analyst had a discussion with a currency trader from Citi who argued the bull case with the point “where is the seller? No one sells this”. Since this conversation Bitcoin has depleted from \$40,000 to \$30,000 per coin.

In summary, we believe you are best to avoid it.

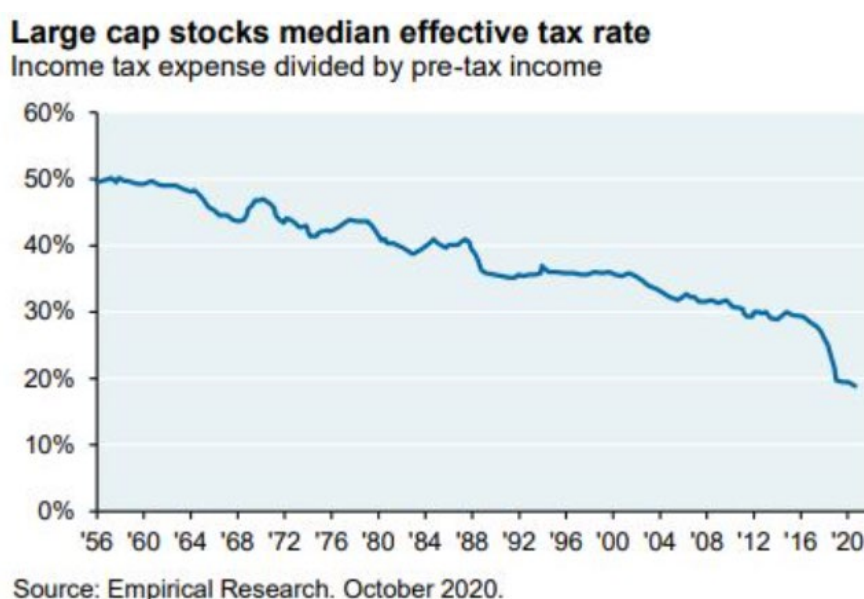


Biden agenda amidst a blue wave

The wrap-up of the Georgia runoffs and Congress' certification of the US presidential election results brings a long election season to a close. Both Democratic candidates won their Senate races in Georgia, by razor-thin margins, handing the Democratic Party control of the White House and both chambers of Congress.

What to expect

1. An increase in the corporate income tax to 28% (from 21%). We all know the below chart is most definitely on Joe's wall.



2. Establish a corporate minimum tax on book income.
3. The expiry of several tax breaks in 2022, including forced amortisation of R&D (versus immediate deduction), refreshed limitations on interest expense deductions, and the beginning of the phase-out of year one expensing of the cost of investment in the likes of machinery and equipment.
4. The elimination of preferential treatment of capital gains and dividends for higher earners. The wealthy are in his sights.
5. **Further fiscal stimulus is likely.** A unified government will smooth the path to more fiscal stimulus. This in theory should be beneficial for value stocks.
6. Ten-year Treasury yields rose and the yield curve steepened as investors anticipate a stronger economic recovery (higher yields). Again, this is beneficial for the cyclical end of the market (i.e. financials).

Is there another Joe that matters?

Senator Joe Manchin (Democratic – West Virginia). He is viewed as a conservative Democrat and has championed bipartisanship. He is very much a centralist and is set to become a very important vote for both side of politics.

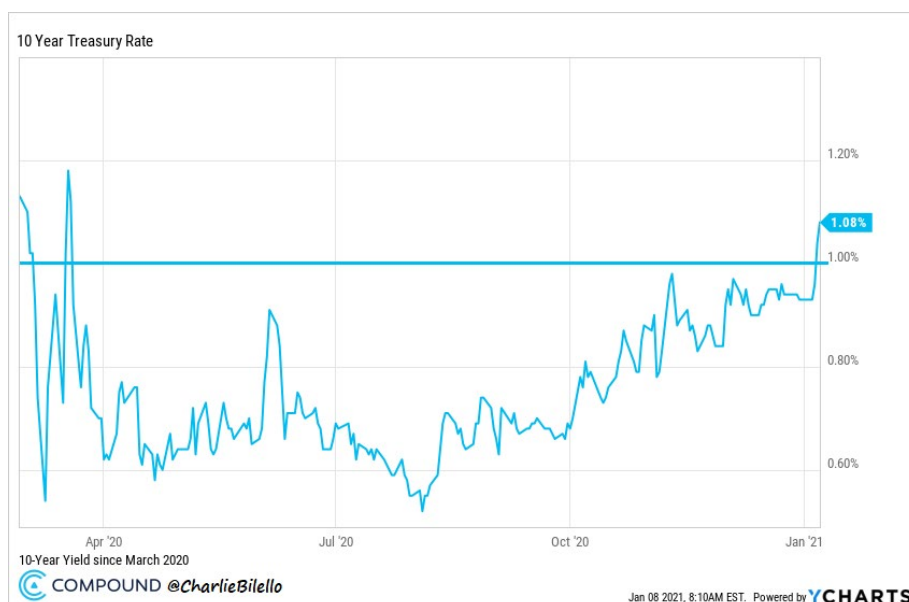
He recently said that *"all this socialism was not who we are as a Democratic Party. We've been tagged if you've got a D by your name, you must be for all the crazy stuff and I am not."*



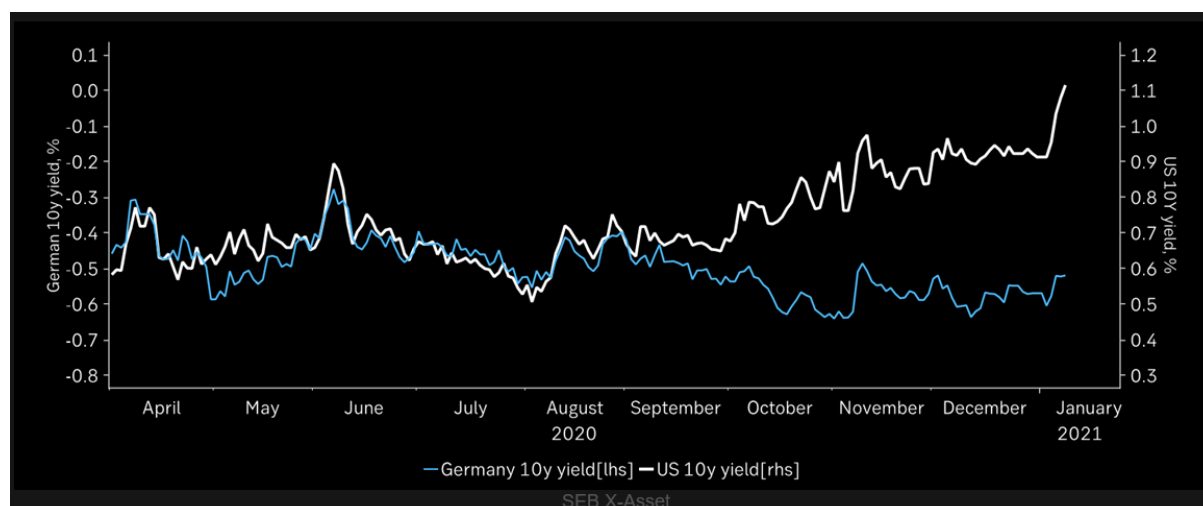
The number that matters the most for investors? The US 10 Year yield

- Interesting to see the US 10 year breaching 1%
- This is the number that we believe has the greatest impact on volatility.
- You only need to go back to late 2018 to see what an upward movement in this can do to share prices
- **While rates remain low its smooth sailing for markets – Buffet puts it much more eloquently.**

Warren Buffett: *"Now, if interest rates were 7 or 8 percent, then these prices would look exceptionally high. But you have to measure, you know, you measure everything against – interest rates, basically, and interest rates act like gravity on valuation. So, when interest rates were 15 percent in 1982, they'd pull down the value of any asset. So, what's the sense of buying a farm on a 4 percent yield basis if you can get 15 percent in governments? But measured against interest rates, stocks actually are on the cheap side compared to historic valuations. But the risk always is – interest rates go up a lot, and that brings stocks down. But I would say this, if the ten-year stays at 230, and they would stay there for ten years, you would regret very much not having bought stocks now."*



Note the US is moving whilst most other advanced economy yield curves remain pinned.





Can governments cope with interest rate hikes?

- In a world of inflation, one would presume a world of higher interest rates which in theory should translate to an increase in the cost of servicing debt – should have a very detrimental impact on budget deficits.
- In the case of Japan with debt near 250% of GDP, an increase of one percentage point across the yield curve would come at an ultimate cost of circa 2.5% of GDP annually
- Financing a deficit is very cheap now (negative interest rates) – so the status quo is essential but what if the choice became curbing inflation or maintaining their own balance sheet as a holder of their own debt...

How about commodities?

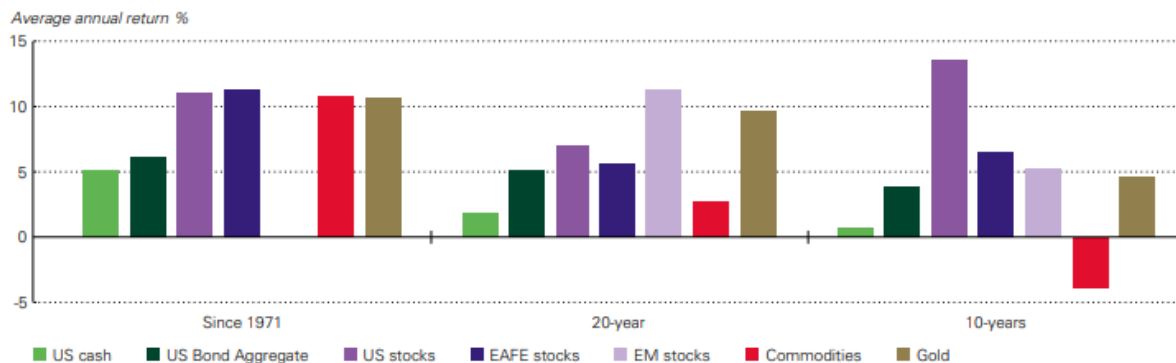
For those who have been reading our quarterlies and monthly write ups, you would know how bullish we have been on commodities and gold for quite some time now. We are starting to see this position bear fruit.

We remain contrarian bullish on energy on the sheer basics of demand/supply dynamics (below)



Gold has delivered positive returns over the long run, outperforming key asset classes

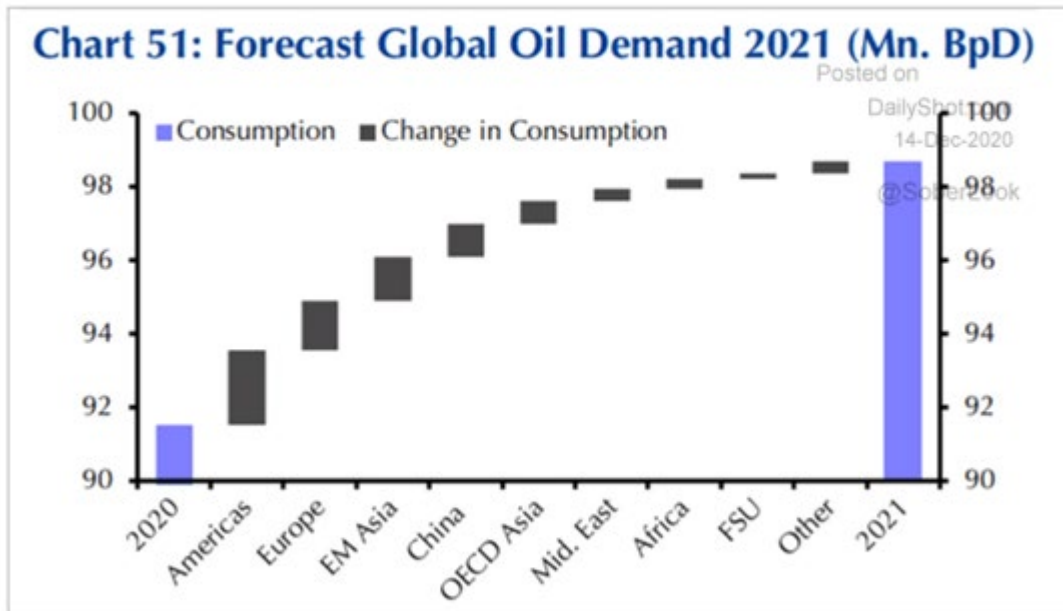
Average annual return of key global assets in US dollars*



Source: Bloomberg, ICE Benchmark Administration, World Gold Council



Energy: Oil demand is expected to increase substantially next year.



Source: [Capital Economics](#)

Alvia quote of the quarter (this stock could be any number of a few today)

"If I could avoid a single stock, it would be the hottest stock in the hottest industry, one that gets the most favourable publicity, the one that every investor hears about in the carpool or on the commuter train - and succumbing to the social pressure, often buys."

- Peter Lynch, Magellan Fund



Quantifying the new trade war – Australia vs China

- Consensus is that Australia's iron ore (4.2% of GDP) remains sacred and a Chinese necessary evil.
- Next is natural gas at 1%.
- Coal at 0.7% of GDP, is under pressure – however, not as bad as portrayed in the media.
- There were easy political wins for China with significant tariffs being placed on Australia's beef and wine exports.
- Iron ore is the major one – lucky for us the alternatives of our scale/quality are very limited

Goods Category	Exports to China (FY20; A\$bn)	% of 2019 GDP	Share of China-bound Exports	China Share of Category	Australia's Largest Ex-China Market
1 Iron ores & concentrates	84.7	4.2%	55.9%	82%	Japan (A\$7.0bn), Republic of Korea (A\$6.2bn)
2 Natural gas	15.8	1.0%	10.4%	33%	Japan (A\$19.3bn), Republic of Korea (A\$4.6bn)
3 Coal	13.7	0.7%	9.0%	25%	Japan (A\$14.4bn), India (A\$7.8bn)
4 Confidential items of trade	5.4	0.3%	3.6%	n.a.	Singapore (A\$3.6bn), Japan (A\$1.8bn)
5 Beef, f.c.f.	2.8	0.1%	1.9%	25%	Japan (A\$2.4bn), US (A\$2.3bn)
6 Copper ores & concentrates	2.4	0.1%	1.6%	37%	Japan (A\$2.1bn), Republic of Korea (A\$0.5bn)
7 Other ores & concentrates	2.0	0.1%	1.3%	55%	Republic of Korea (A\$0.7bn), Japan (A\$0.3bn)
8 Wool & other animal hair (incl tops)	1.9	0.1%	1.3%	77%	Italy (A\$0.1bn), India (A\$0.1bn)
9 Aluminium ores & conc (incl alumina)	1.6	0.3%	1.1%	18%	South Africa (A\$0.6bn), Mozambique (A\$0.5bn)
10 Edible products & preparations, nes	1.5	0.1%	1.0%	55%	New Zealand (A\$0.3bn), Vietnam (A\$0.1bn)
11 Medicaments (incl veterinary)	1.4	0.1%	0.9%	47%	New Zealand (A\$0.3bn), US (A\$0.2bn)
12 Copper	1.3	0.1%	0.9%	39%	Malaysia (A\$0.7bn), Taiwan (A\$0.4bn)
13 Meat (excl beef), f.c.f.	1.3	0.1%	0.9%	24%	US (A\$1.1bn), Japan (A\$0.4bn)
14 Alcoholic beverages	1.1	0.1%	0.7%	34%	US (A\$0.5bn), UK (A\$0.4bn)
15 Crude minerals, nes	1.1	0.1%	0.7%	88%	Belgium (A\$0.1bn), Republic of Korea (A\$0.0bn)
16 Fruit & nuts	1.0	0.0%	0.7%	40%	Japan (A\$0.2bn), Vietnam (A\$0.1bn)
17 Crude petroleum	0.9	0.2%	0.6%	11%	Singapore (A\$1.3bn), Malaysia (A\$1.0bn)
18 Gold	0.8	0.6%	0.5%	3%	Hong Kong (SAR of China) (A\$3.3bn), UK (A\$12.7bn)
19 Wood in chips or particles	0.7	0.0%	0.5%	57%	Japan (A\$0.5bn), Taiwan (A\$0.0bn)
20 Cotton	0.6	0.0%	0.4%	63%	Indonesia (A\$0.1bn), Vietnam (A\$0.1bn)
21 Crustaceans, f.c.f.	0.6	0.0%	0.4%	76%	Hong Kong (SAR of China) (A\$0.1bn), Japan (A\$0.0bn)
22 Pharm products (excl medicaments)	0.6	0.1%	0.4%	16%	US (A\$1.8bn), Germany (A\$0.7bn)
23 Wheat	0.6	0.0%	0.4%	15%	Republic of Korea (A\$0.4bn), Philippines (A\$0.3bn)
24 Wood, rough	0.6	0.0%	0.4%	95%	Malaysia (A\$0.0bn), Vietnam (A\$0.0bn)
25 Barley	0.6	0.0%	0.4%	54%	Thailand (A\$0.2bn), Japan (A\$0.2bn)
Total	145.1	8.5%	95.8%		
Services Category	Exports to China (CY2019; A\$bn)	% of 2019 GDP	% of China-bound Services Exports	China Share of Category	Australia's Largest Ex-China Market
1 Education	12.7	0.6%	72.4%	31%	India (A\$6.4bn), Nepal (A\$3.0bn)
2 Tourism	4.5	0.2%	25.6%	20%	New Zealand (A\$2.3bn), UK (A\$2.1bn)
3 Business	0.3	0.0%	1.9%	12%	US (A\$0.3bn), India (A\$0.3bn)
Total	17.5	0.9%			

* Shading denotes categories affected by recent Australia-China trade disputes

** f.c.f. = fresh, chilled, frozen



Alvia infographic of the year

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	10 Years
TIPS 13.3%	EM 19.1%	Small Cap 41.0%	REITs 30.4%	REITs 2.4%	Small Cap 26.6%	EM 37.3%	Cash 1.7%	Large Cap 31.2%	Large Cap 18.3%	Large Cap 13.8%
REITs 8.6%	Int'l Stocks 18.8%	Mid Cap 35.2%	Large Cap 13.5%	Large Cap 1.3%	Mid Cap 20.5%	Int'l Stocks 25.1%	Bonds 0.1%	REITs 28.9%	EM 17.0%	Small Cap 11.8%
Bonds 7.7%	REITs 17.6%	Large Cap 32.3%	Mid Cap 9.4%	Bonds 0.5%	Comdty 12.9%	Large Cap 21.7%	TIPS -1.4%	Mid Cap 25.8%	Mid Cap 13.5%	Mid Cap 11.2%
Large Cap 1.9%	Large Cap 16.0%	Int'l Stocks 21.4%	Bonds 6.0%	Cash -0.1%	Large Cap 12.0%	Mid Cap 15.9%	Large Cap -4.6%	Small Cap 22.6%	Small Cap 11.4%	REITs 8.7%
Small Cap 1.1%	Small Cap 15.7%	EW 10.7%	Small Cap 5.5%	Int'l Stocks -1.0%	EM 10.9%	Small Cap 13.1%	REITs -8.0%	Int'l Stocks 22.0%	TIPS 10.8%	EW 5.7%
Cash 0.0%	Mid Cap 15.2%	REITs 2.3%	EW 4.0%	TIPS -1.8%	EW 10.0%	EW 12.6%	EW -7.2%	EM 18.2%	EW 7.8%	Int'l Stocks 5.4%
EW -1.4%	EW 11.0%	Cash -0.1%	TIPS 3.6%	Small Cap -1.6%	REITs 8.6%	REITs 4.9%	Small Cap -8.6%	EW 17.5%	Int'l Stocks 7.6%	Bonds 3.7%
Mid Cap -1.5%	TIPS 6.4%	Bonds -2.0%	Cash -0.1%	Mid Cap -2.5%	TIPS 4.7%	Bonds 3.6%	Mid Cap -11.3%	Bonds 8.5%	Bonds 7.5%	TIPS 3.7%
Int'l Stocks -12.3%	Bonds 3.8%	EM -3.7%	EM -3.9%	EW -4.7%	Bonds 2.4%	TIPS 2.9%	Comdty -13.1%	TIPS 8.4%	Cash 0.4%	EM 2.9%
Comdty -14.0%	Cash 0.0%	TIPS -8.5%	Int'l Stocks -6.2%	EM -16.2%	Int'l Stocks 1.4%	Comdty 0.7%	Int'l Stocks -13.8%	Comdty 7.6%	Comdty -4.1%	Cash 0.5%
EM -18.8%	Comdty -2.1%	Comdty -11.1%	Comdty -18.6%	Comdty -28.2%	Cash 0.1%	Cash 0.7%	EM -15.3%	Cash 2.0%	REITs -4.6%	Comdty -7.8%

Funds: EEM, VNQ, MDY, SLY, SPY, EFA, TIP, AGG, DJP, BIL

A bottle of wine to anyone that can pick the top performer in 2021 (be sure to email us your response)!

Alvia's view is commodities for 2021!

The importance of capital flows!!

- Equities benefit from the lack of alternatives as do alternative investments.
- The Yale University endowment which really pioneered a heavy alternative investment portfolio has recently increased its allocation to 75% alternatives.
- Cash rates are zero and yield curves are near historic lows – its apparent why we are seeing equities and alternatives valuations expand.

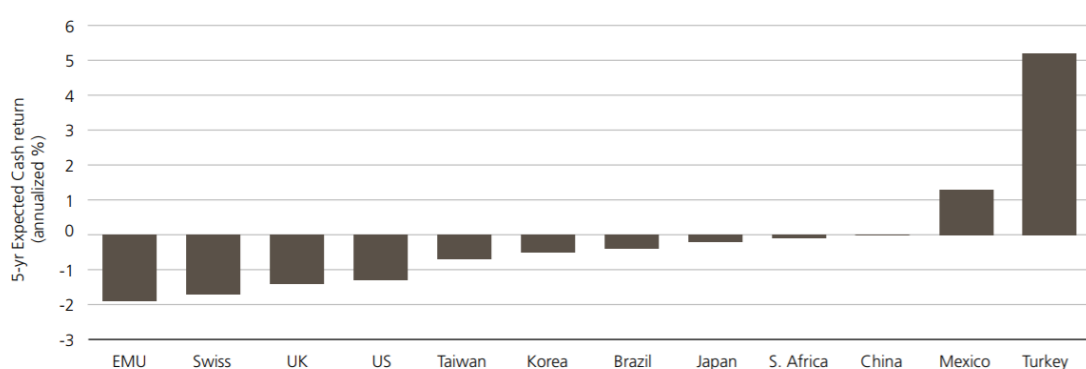


"Cash is Trash" – Ray Dalio, 2020

Unfortunately for Ray, he said this in January 2020, with cash becoming a very helpful asset class in March as the COVID-19 pandemic started to grip the world. However, Ray's comment if said in January 2021 would look quite right.

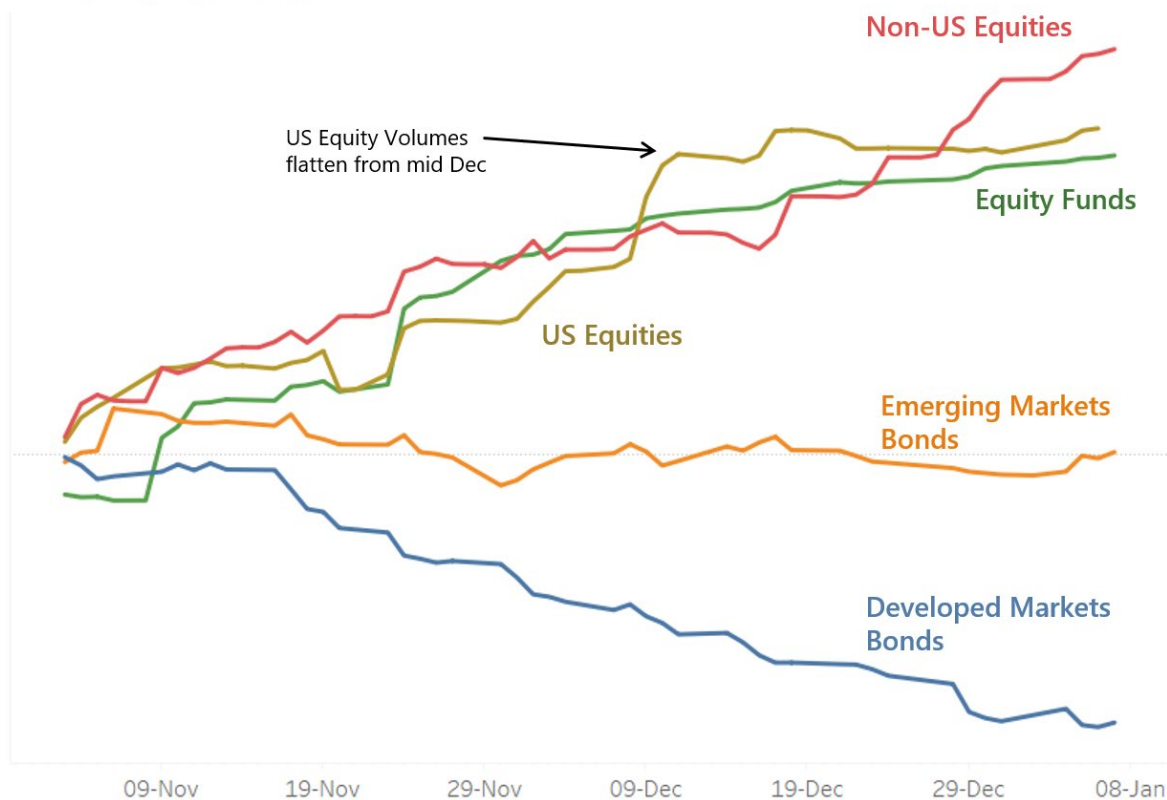
Although there is very little to be gained from holding cash, Alvia still acknowledges the effectiveness cash can play in protecting a portfolio – this was exemplified in March.

Exhibit 5: 5-yr Expected Real Cash Returns



Source: UBS Asset Management. 30 November 2020.

US Equity buying tapered after mid Dec

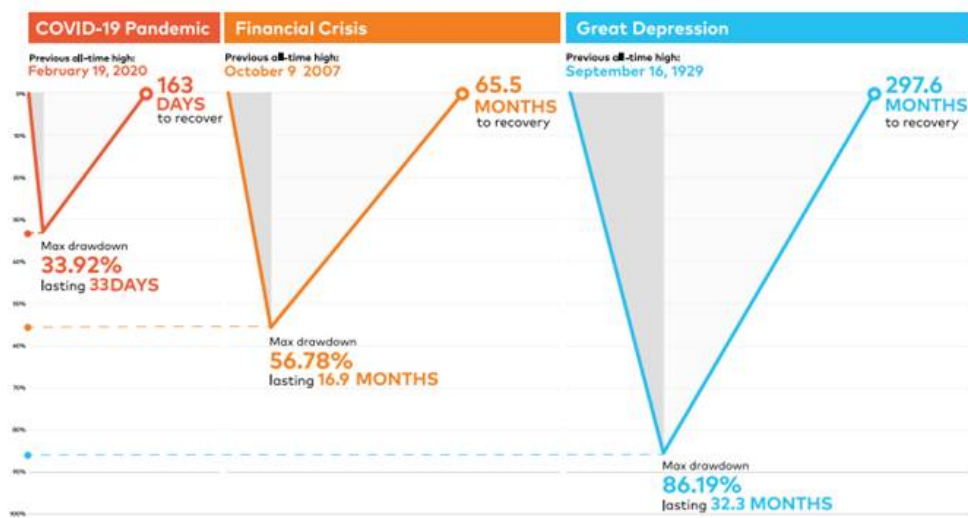




Economies do not equal markets!!!

This is something we cannot stress enough. Much has been written about the rapid nature of the market collapse and associated recovery. Compare this to the GFC and the 1929 depression, its truly amazing.

The U.S. equity market has never spiralled into bear market territory as swiftly as it did in 2020. Nor has it ever recovered as quickly to reach new all-time highs.

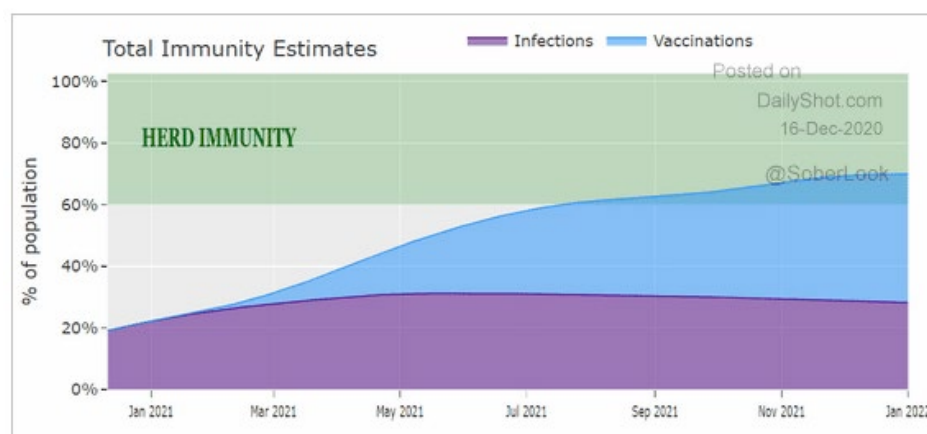


Source: Bloomberg LP and Cornerstone Research Inc. as of October 31, 2020

The Vaccine Rollout

- We are well down the list in Australia; however, I am not sure we will remain patient and understanding for very long.
- Israel will hit herd immunity first (assuming efficacy) see below.
- The US, due to a high infection rate might be there in August 2021 and we will just be getting started with a big wall to climb from a low base of infections.
- In other words, its camper vans over international ski trips for a while yet

Food For Thought: Reaching herd immunity in the US:



Source: [@youyanggu](#)



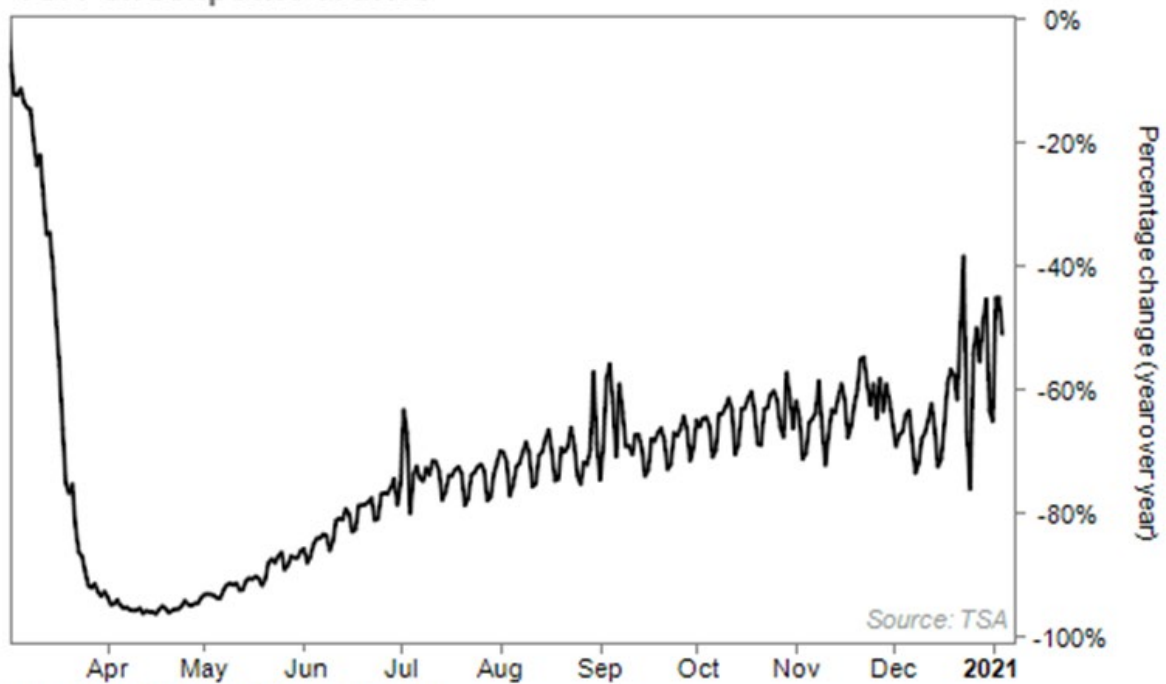
Global Vaccination Campaign

Country	No. of doses administered	Per 100 people ▼	Last updated
Global total	35,089,499	-	Jan. 14
Israel	2,160,361	23.87	Jan. 14
U.A.E.	1,527,833	14.21	Jan. 14
Bahrain	109,566	7.38	Jan. 13
U.K. 🇬🇧	3,356,229	5.02	Jan. 13
Palau	725	4.26	Jan. 13
U.S.	11,869,478	3.61	Jan. 14
Denmark	129,170	2.22	Jan. 14
Italy	960,838	1.59	Jan. 14
Iceland	5,517	1.55	Jan. 14
Slovenia	29,561	1.43	Jan. 14
Spain	616,186	1.33	Jan. 13
Canada 🇨🇦	458,095	1.22	Jan. 14
Lithuania	31,525	1.13	Jan. 14
Estonia	14,879	1.12	Jan. 14
Russia*	1,500,000	1.02	Jan. 11
Germany	842,455	1.01	Jan. 14
Hungary	96,101	0.98	Jan. 14
Poland	369,212	0.97	Jan. 14
EU	4,206,391	0.95	Jan. 14

The world is desperate for an effective vaccination roll out.

- US airline traffic numbers are still very much down in the doldrums...

TSA Checkpoint Traffic



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Alvias blast from the past

- Stereo
- Clock radio
- Pocket calculator
- Computer
- VHS camcorder
- Mobile phone
- Portable CD player
- Answering machine
- Cassette tape recorder

All of these can be found inside your smart phone!



Source: Wealth of Common Sense

It is ok to lower your expectations from markets – it is rational to do so

- Equities will continue to (and need to) play a large part of your return base going forward as other classes aren't going to get you the desired result.
- We think at today's levels that equities can still do ok and even better relative to bonds, but we just don't believe you can reasonably expect 10-15% as per history.
- We think the below is reasonable (if focused on valuation) circa 6-9%
- When faced with the below, it's obvious to increase allocation to equities in the eyes of any allocator – especially those with liabilities of 6/7% that need to be matched.

Exhibit 1: Five-year expected returns in USD terms Annualized %

	May 2020	Nov 2020
Global Equities Unhedged	7.5	6.5
Global Gov Hedged	-0.1	-0.1
Global Corp IG Hedged	1.1	0.2
Global Corp HY Hedged	4.1	1.8
1-mo T-Bills	0.2	0.3
US Inflation	1.4	1.6

1 We provide Equilibrium, 5-yr and 10-yr estimates of the capital markets that will vary over time. By far, most interest from clients is on our 5-year expectations.
 2 Technically, our report was a mix of end of April for equities and cash, but mid-May for credit and high yield. The latter asset classes faced extraordinarily large volatility, creating major changes in expected returns. We refer to these estimates as our 'May' assumptions.



Moving into 2021 – we remain ‘selectively’ bullish for now.

1. **Interest rates remain low.** It’s certainly well known that rates are low for now. This supports risk assets. Watch the yield curve!
2. **Massive liquidity injections.** Liquidity is excessive and consistent which will provide support, however it also leads to increased speculation. Hunt for pockets of value and avoid indices.
3. **It is inevitable that 2021 is a positive growth economic story.** It really comes down to, does it meet the elevated expectations? and is there a successful implementation of a vaccine that lives up to its efficacy forecasts. It is apparent the consensus view is such. With rates low and stimulus aplenty, it is hard to bet against a reversionary growth event in 2021. The only problem we see is the market’s base case is already high.
4. **Earnings growth will be quite strong.** Earnings will look very positive on aggregate in comparison to 2020 for most **companies**, however some will be rolling off very high numbers (such as Zoom). **Again, expectations are high already.**

If we had to guess, our view would be a circa 5-8% return from markets with a drawdown of circa 10% at some stage due to the market’s change of heart towards the vaccine rollout.

