



Narrative over Numbers

Alvia Asset Partners Investment Team Insights

June 2021 Quarter



A message from the CIO

As we discuss regularly, investing is an imperfect science. Anyone that talks to perfect estimates and forecasts does so out of self-interest and ego. Good investing and good investors are part stoic psychologists and part analyst. Yes, good analysis is important but it's what your temperament allows you to do (or not do) with good analytics that makes the compounding difference over time. Good investment can truly be temperamentally draining and insanely lonely.

With the recent completion of the European Football Championship, we think it seems sensible to see how we can use penalty kicks to symbolise this point. As per below, data suggests that during a penalty kick the best rational goalkeeping decision to increase the percentage of saves is to do absolutely nothing (i.e. stand still in the middle of the goal). By standing still you are destined to save 28.7% of kicks without choosing a direction.

		Jump direction			
		Left	Center	Right	Total
Kick direction	Left	18.9%	0.3%	12.9%	32.2%
	Center	14.3%	3.5%	10.8%	28.7%
	Right	16.1%	2.4%	20.6%	39.2%
	Total	49.3%	6.3%	44.4%	100.0%

Source: Ben Carlson

However, doing nothing poses the real risk of looking embarrassingly stupid and goes against the human bias for the glamour of action. The similarities with investing are apparent – where in fact the act of doing nothing in itself is a choice of action... and a difficult choice at that. Action, as with the symbolic goalkeeper, feels cosy and discounts the likelihood of looking silly, however it opens you up to mistakes despite the satisfaction you feel from activity.

The symbolic goalkeeper diving right even though the ball dribbles straight down the middle feels like they took action despite the erroneous result.



In the context of investment and markets, there is no virtue more highly rewarded than patience. However, it's becoming increasingly rare as attention spans dwindle by the minute, likely due to information overload and our inability to curate out the white noise. There is simply so much to be said for waiting for *something* to play out. The get rich/richer now mindset is in overdrive despite almost all investors knowing deep down that consistent compounding over the long term is the only real way... albeit 'boring.'

A good example for us recently relates to Sydney Airport (ASX:SYD) shares which we first purchased along with other monopolistic airports right in the heart of the pandemic. Our thesis was simple (knowing the business fundamentals well), things would take time to normalise, but they would improve over our investment horizon and these once sacred monopoly assets would again become attractive in the eyes of investors – it would just require patience.

Strangely, we have been questioned over and over again about these purchases without any conversation around fundamentals (even internally we debated a little). Although sure enough, with a bit of patience, the largest attempted takeover in Australia's history turned up last week for Sydney Airport at a significant premium to our initial purchase price.

We uncomfortably stood firmly still in the middle of goal and let the ball dribble into our feet and received a great investment outcome on the back of patience and inaction.

The other element of the above that sometimes gets ignored is an investor's ability to turn over lots and lots and lots of rocks – choosing very carefully to only pick up the ones that matter. There is an anecdote in the book *Art of Fear* by David Bayles and Ted Orland that sums this up nicely.

A ceramics teacher divided the class into two groups on day 1. Group A would be graded solely on quantity and Group B solely on quality. He would use scales to measure the volume of the quantity group and the quality group would only need to produce one perfect grade A pot.



However curiously all the works of highest quality were produced by the 'quantity' group and with the benefit of experience, practice and learning from mistakes they mastered the process. The 'quality' group got in their own way – theorising themselves to death and producing low quality work as a result.

The lesson being that quantity can produce quality – turning over lots of rocks allows you to identify the quality ones to pick up. Investing requires lots of practice and lots of skinned knees (lots of quantity). Analysis can be learnt at university, but your investing mentality is mastered over decades of badly skimming rocks.

As always thanks for your support – whilst returns are good, we remain cautious and remain firmly entrenched on avoiding errors over chasing returns.

"I think if investors adopted an ethos of not fooling themselves, and focused on reducing unforced errors as opposed to hitting the next home run, returns would improve dramatically."

- Allan Mecham

Yours sincerely,

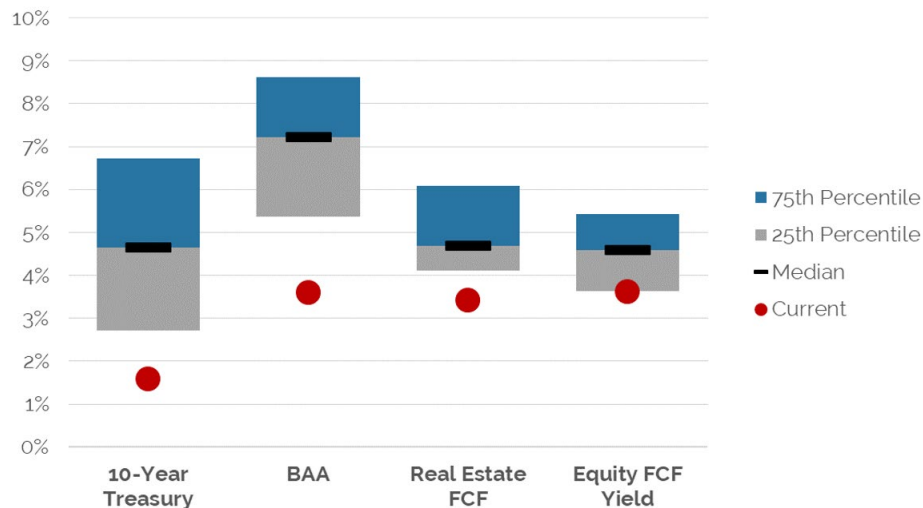
Joshua Derrington
Chief Investment Officer
Alvia Asset Partners



Please Sir, I want some more...risk

Current yields for 10-year treasuries, BAA bonds, and real estate free cash flows are near the bottom of their historic ranges while the equity free cash flow yield stands out as looking somewhat more attractively valued.

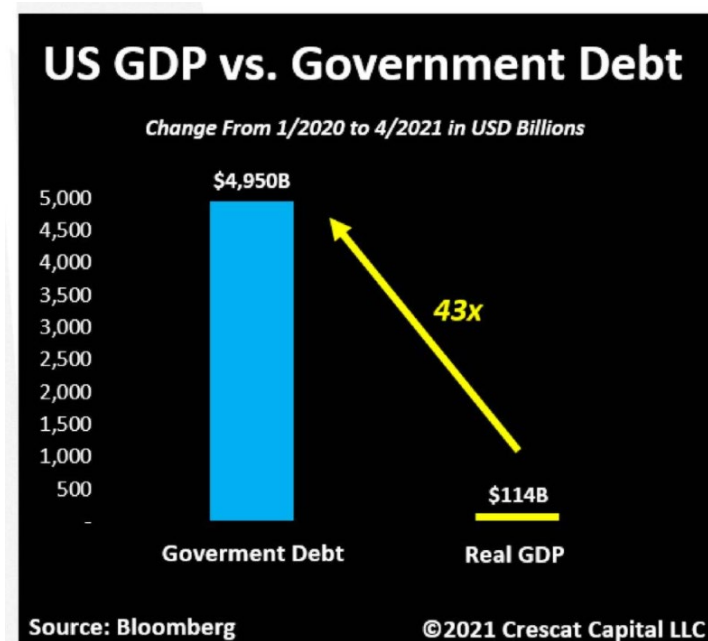
Figure 1: Comparison of Current Asset Class Yields & Historical Ranges ('85 through May '21)



Source: FactSet, Real Estate Research Corporation (RERC), Real Capital Analytics (RCA), Distillate Capital

We hear a lot of conversation about equity valuations without any context to all asset classes. The premium currently offered for taking equity risk over all-time low interest treasuries still offers something for the allocator. Frequently, the market is dictated by the forced allocations of the mandated institutions.

Below helps to provide a visual of the level of money printing that occurred last year. We can now start to understand why US Treasuries are so unattractive.





When we look at the effective real yield ($real\ yield = nominal\ yield - rate\ of\ inflation$), we can see that the yield is negative. This creates a greater challenge for these institutional money managers to hit their mandated return numbers, as the proxy for risk free return is now negative.



With the spike in inflation, central banks especially the Federal Reserve (the Fed), feed us 2021's most overused phrase "**transitory inflation**".

Before we continue, here is a quick crash course on good and bad inflation:

Good inflation: inflation in general is seen as a desirable side effect of stronger economic growth. Even if inflation modestly overshoots central bank target ranges (2-3%), the consensus remains confident that it won't get out of control. Bond markets may incur losses as yields rise but it happens in an orderly way and risk assets continue performing well.

Bad inflation: the consensus becomes fearful of runaway inflation that will eventually force central banks to raise interest rates aggressively, bond markets get hit with a violent sell-off that eventually spills over into hurting risk assets.

Transitory inflation is where the spike is merely temporary (transitory) and warrants no rate hikes. We are starting to think that bankers seem to be far more concerned about popularity than previously, as they seek to find the perfect balance of appropriate inflation to assist the debt problem whilst also limiting snap rate hikes.

However, this narrative has become harder and harder for central banks to run with. The Fed (typically viewed as the Zeus of Central Banks) quietly ushered in an ease in policy. We won't delve into the detail - the short version is that the excess reserves were raised from 10 basis points to 15 and there was serious discussion about the tapering of asset purchases.

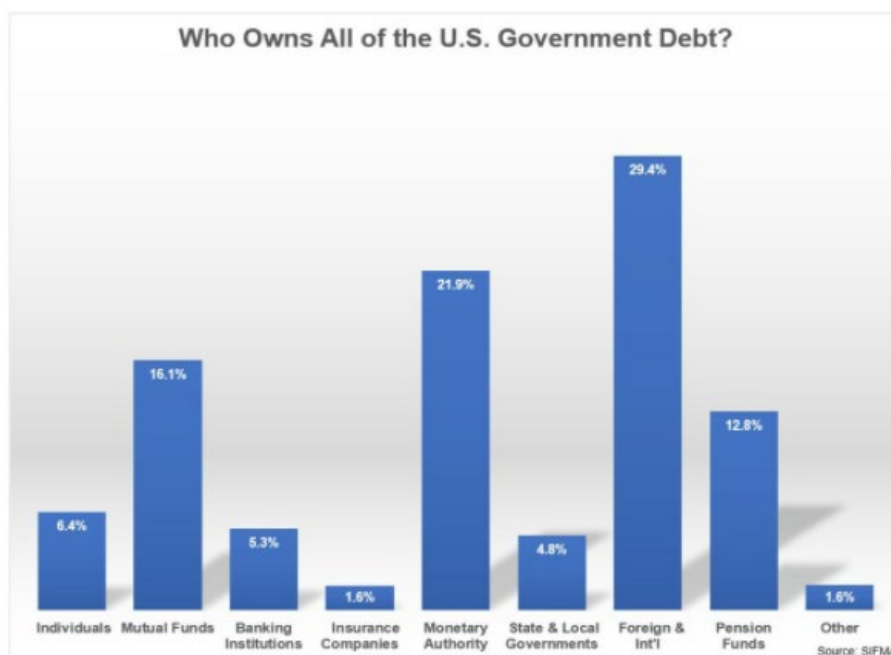
It seems clear the timing and size of tapering will be signalled at Jackson Hole in August.



However, the Fed has become so wedded to a transitory inflationary bounce that anything else will reflect badly on them. **Should economic data remain good, then the August meeting becomes increasingly important to manage the market's expectations around the end of emergency support.** If the Fed produces any narrative shock, the market will react as it digests any alteration to the Fed put.

The fear here is that the stock market has become so dependent upon the Fed being accommodative that should the Fed finally "back off," the stock market may correct downward. This will likely create further complexity for these mandated asset allocators.

Perhaps the owner of the Modern Monetary Theory (MMT) can help shed some light? The Fed owns c.22% of US government debt, with the rest owned by corporations, institutions and foreign governments (China being the largest owner). The Fed will likely have to continue to grow its ownership as foreign demand will wane without increasing rates...but can the government itself actually afford rates to rise due to its increasingly strained balance sheet?

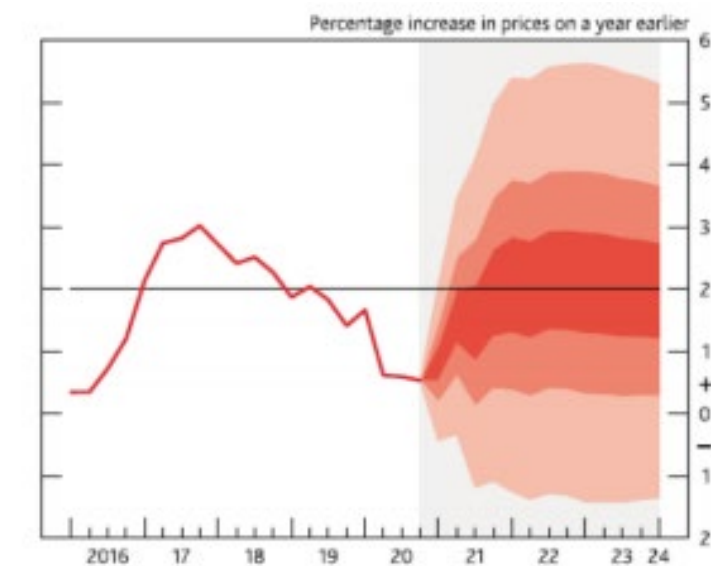


So, if we do experience some permanent inflation, to prevent it getting out of control, the Fed's first move would be to raise rates. However, the limitations on the government balance sheet might prevent this. Perhaps this is why the Fed continues to hound that inflation is merely transitory?

Let us ignore the Fed's thoughts on inflation and see what the "experts" think.



The Bank of England, who sits on all the data in the world, produced the below forecast and with 2 standard deviations, we have a forecast from 0% to 5%...

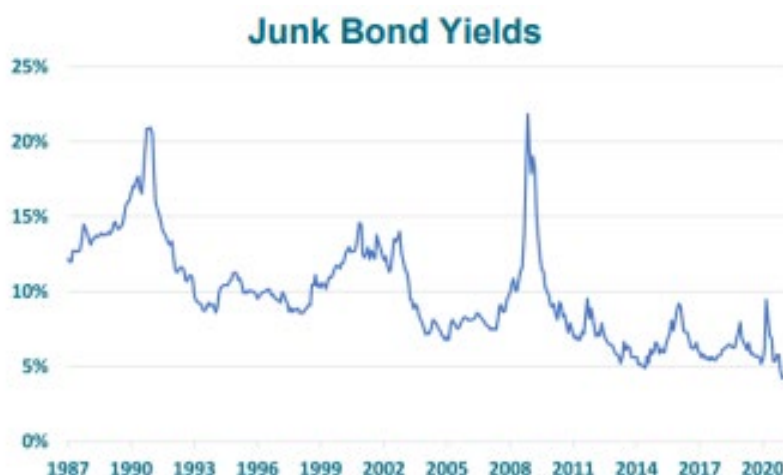


Source: Bank of England.

Nobody really knows what is happening with inflation, but like we have since inception, we will continue to utilise our asset allocation approach to diversify accordingly.

Now we sit. No expert is actually sure where inflation is headed and the proxy for "risk free" returns are negative, with a likelihood of an impactful rate hike limited from a strained government balance sheet. With this, we are starting to see a rotation in different asset propositions occur.

Below are the yields on junk bonds, the compression in these yields is starting to become apparent.



Source: Packer & Co



This transition into higher risk assets is not a new phenomenon, it is just something that has been exacerbated with the real yield entering negative territory. There is more capital in the system than ever before, bringing with it greater competition and willingness to pay up for yield.

Welcome to what we call **The Bigger Sucker Theory**.

In Q1 2021, the average private equity acquisition multiple was 12x EBITDA (earnings before interest, taxes, depreciation and amortisation). This is up from 2015 when it was 10x. In the 3 years prior to the Global Financial Crisis (GFC), the multiple ranged from 6.5x to just over 8x.

The amount of capital in the system is forcing private equity investors to buy high and hopefully sell much higher as they jostle to achieve their annual return target.

As we have often repeated to our clients, when you are investing in private equity, **price paid is simply more important than anything**.

Here is a summary of the above:

- More capital in the system than ever before = greater competition hunting for the same yield driving down the return proposition.
- Inflation is anyone's guess, but the recent actions indicate it is more likely here to stay than not.
- The flow on impact of potentially raising rates in the face of this sees a market sell off.
 - Recall in our Q1 2021 insights piece titled "What's the Hurry Rick", we discussed what happened to the tech names when the 10-year US treasury yield moved up to c.1.5%
- We wonder if the US government can actually afford a rate hike?
- We will touch on this later, but we want you to consider what the previous 10 years of under investment in commodities might also do to inflation.



With all this, what are our return expectations over the next 5-10 years?

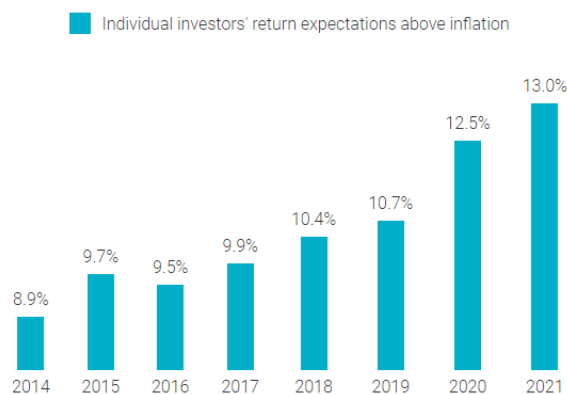
If you said under 14% then you are below the global average of individual investors. Look at the divergence between individual investors (retail punters) and finance professionals.

Investors expect higher returns than financial professionals say are realistic



Markets have continued their upward march and with that has investor expectations. Could this be an example of recency bias?

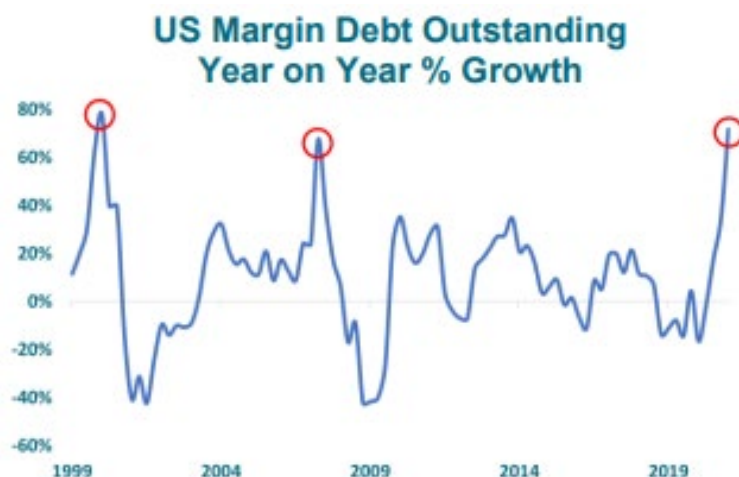
Year over year, return expectations continue to rise



Source: Natixis Investments

If returns continue to grow, so to does the base (or capital value). Therefore, to hit the prior year's return expectations, the dollar return must also be greater. A 'greater return on a greater base'...does that not feel irrational?

Or perhaps simply, we are not factoring in the level of debt being utilised to fund their investments.



Source: Packer & Co

Or perhaps everyone is getting caught up in excessive market noise and narratives?

Late in the quarter, **Cristiano Ronaldo** made news headlines around the world when he **removed coke bottles from an interview**. Post the interview there were a few headlines but one specifically from the Guardian caught our eye – “Ronaldo snub wipes \$4.4 billion off Coke’s value!”.

Looking at the numbers. Coke has a market cap of \$230 billion, so a \$4.4 billion drop is a 2% decline. In relation to the S&P, Coke underperformed the index by c.0.1%, which was likely due to normal passive fund flows.

Definitely feels there is a lot of excessive noise, almost like there is more **narrative over numbers...dotcom bubble anyone?**

What drives equity returns in Alvia’s opinion?

(Other than meme stock short covering 😊)

1. Fundamental growth – cash flows grow 20% so should the share price eventually
2. Multiple expansion – if a stock trades at a multiple discount (to peers or the market) and the fundamentals improve or uncertainty resolves itself – the multiple should also improve.
3. We intensely focus on the first and hopefully we get a bit of both number one and two.

Those businesses that provide an opportunity for the combination of both offer the best future returns, but this is a rare beast, especially in today’s market.

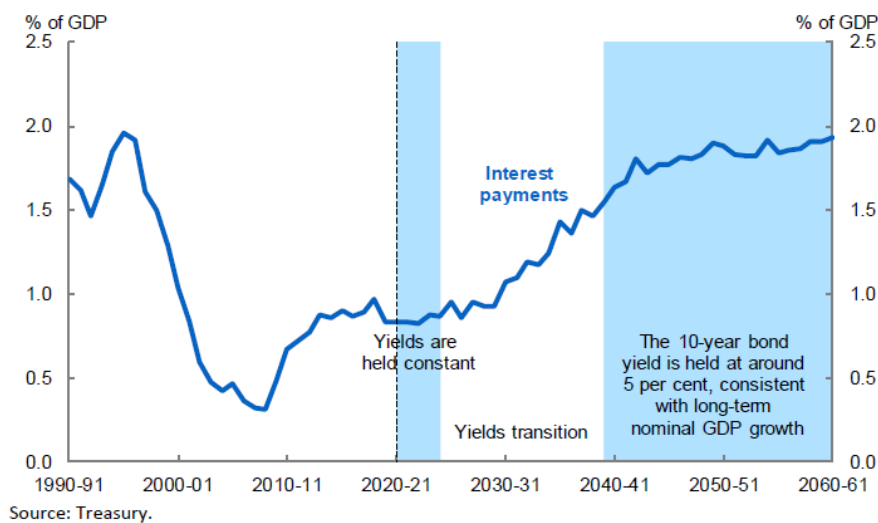


RBA's Treasury Forecast

Looking closer to home the RBA has guided to holding rates until at least 2024 and increasing to circa 5% in 2040...definitely feels like a problem far, far...far away.

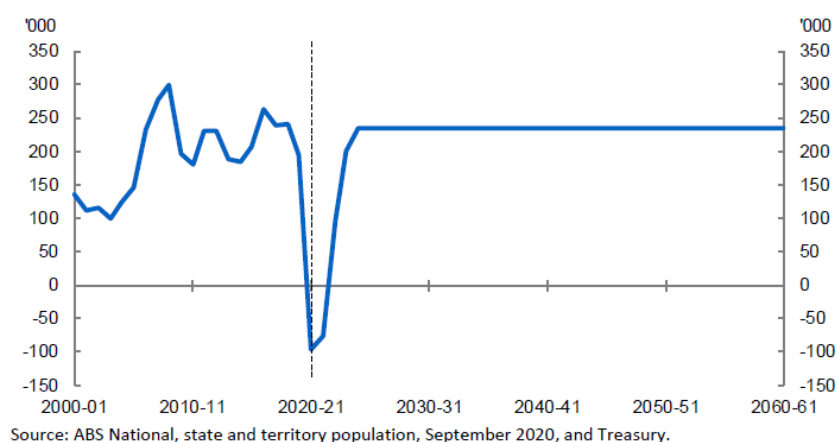
All we will say is... **we definitely hope those \$150+ iron ore prices hold.**

Chart 6.11 Interest payments on government debt



Seeking normalisation is going to be a lot harder with the lack of vaccination holding back net overseas migration.

Chart 2.4 Net overseas migration



Net overseas migration accounted for c.60% of population growth over the last decade. Low fertility rates suggest this could increase to c.70%+ by 2060.

In short, we need migration to normalise our interest rates.



Musk...a touch of objectivity required

Let us take a walk down memory lane looking at his promises:

- It has been **1,306 days** since Elon Musk said Tesla would sell a pickup truck;
- **1,574 days** since Elon Musk took deposits for a space tourism flight around the moon scheduled for 2018;
- **3,410 days** since Elon Musk said "Tesla does not need to ever raise another funding round". Tesla has since raised c.\$16.6b from issuing common shares.

He seems to replace unfulfilled narrative promises with another narrative. The latest of which is "green energy", which is again blinding the rational investment processes of many.

For those curious, Tesla is yet to generate sufficient cash flow (take away the government incentives) to support the business. Should the narrative start to fade, Musk is left with mere fundamentals and becomes at risk of being spat out by the market - a market who has lost patience with his disregard for capital allocation and questionable governance practices.

Or perhaps he comes up with a new narrative?

Bubble Talk

Not even long-time experienced investors are sure if we are in a bubble or not.

Ray Dalio, founder of Bridgewater believes only around 5% of the stocks in the S&P 500 are in a bubble, which is well below the number there were in 1929, 2000 and 2007. Based on proprietary analysis, he believes investors will have to do the work to determine which ones are not in bubble territory.

Jeremy Grantham, co-founder of Grantham, Mayo & Van Otterloo (typically referred to as GMO) is very concerned of a bubble (a massive grain of salt is required here, as he has been positioned for a bubble bursting for a long time). He highlights the single largest input to margins is low interest rates, thanks to increased leverage. In other words, he believes stocks are held up by inflated profit margins, supported by low interest rates and exacerbated by tech monopolies... with the only cure being higher rates, however, Powell is no Volker. So, with rates at all-time lows...where is Jeremy investing? Value equities over growth, with an emerging market bias.

We tend to agree, just add in some alternatives and a decent cash weighting for the sake of opportunity.

However, until this changes the show goes on as negative real returns really hurt.

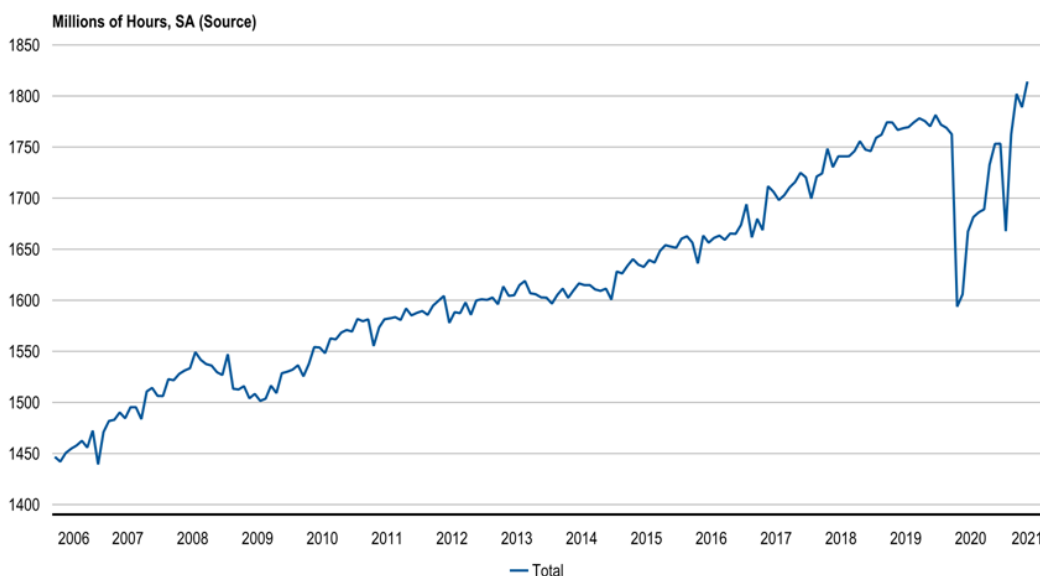


Chart of the quarter

Australia hours worked (irrespective of unemployment rate) surpassed 2019 highs recently. This surprised us internally. It will be interesting to see if this moves the inflation needle and forces the RBA's hand.

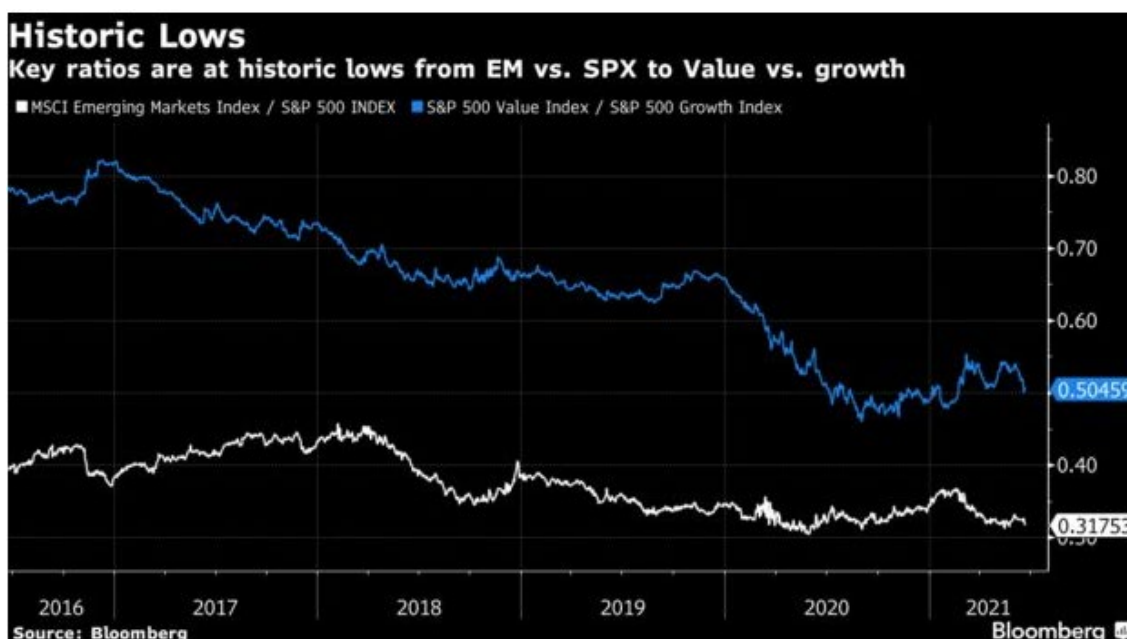
Australia Total Monthly Hours Worked

May 2006 – May 2021



Source: Franklin Templeton, Australian Bureau of Statistics, Macrobond.
Coverage: Resident Population Aged 15Y+ During the Reference Week.

Emerging markets vs. S&P 500 and value vs. growth



In our opinion, owning emerging market value makes sense.



Recency bias?

Remember back in the height of work from home, everyone was calling the death of office, the end of retail and how business travel would be eliminated by Zoom and Teams. Well, we think making these types of statements in the thick of it is a perfect example of extreme recency bias.

Below are only a few comments from senior executives on their thoughts on working from home, the end of retail and how business travel would be replaced by the likes of Zoom.

James Gorman, CEO of Morgan Stanley – “If you want to get paid New York rates, you work in New York”

David Solomon, CEO of Goldman Sachs – “It’s not a new normal.... it’s an aberration that we are going to correct as quickly as possible”

Elizabeth Gulacsy, CFO of SeaWorld Entertainment – “Past sales, when we look at both March and April, exceeded sales volumes that we had in March and April of 2019.”

Jean-Jacques Guiony, CFO of LVMH Moët Hennessy Louis Vuitton (LVMH) – “The only thing I would comment is that I don’t feel that people are just willing to stay at home and shop just from home. I mean the – as we’ve discussed many times, the experience you get from a screen or from a store is entirely different, and we do believe that nothing replaces the store visit. We can just improve it with visit on the website before. So it’s a research online, purchase off-line or it’s taking appointments, checking the availability of the product, you name it. But we don’t view online as being a new channel. We think it just reinforces the quality of the experience people have when they come to stores, and we will not change our mind there.”

Kevin Jacobs, CFO of Hilton Worldwide Holdings – “Both leisure and business transient demand rebounded quickly as restrictions eased with March occupancy in China exceeding 2019 levels.”

If we had to guess, on average we believe that working from the office see’s it turn into 4 days in the office 1 day virtual, that retail does not end and business travel returns and eventually exceeds 2019 levels.



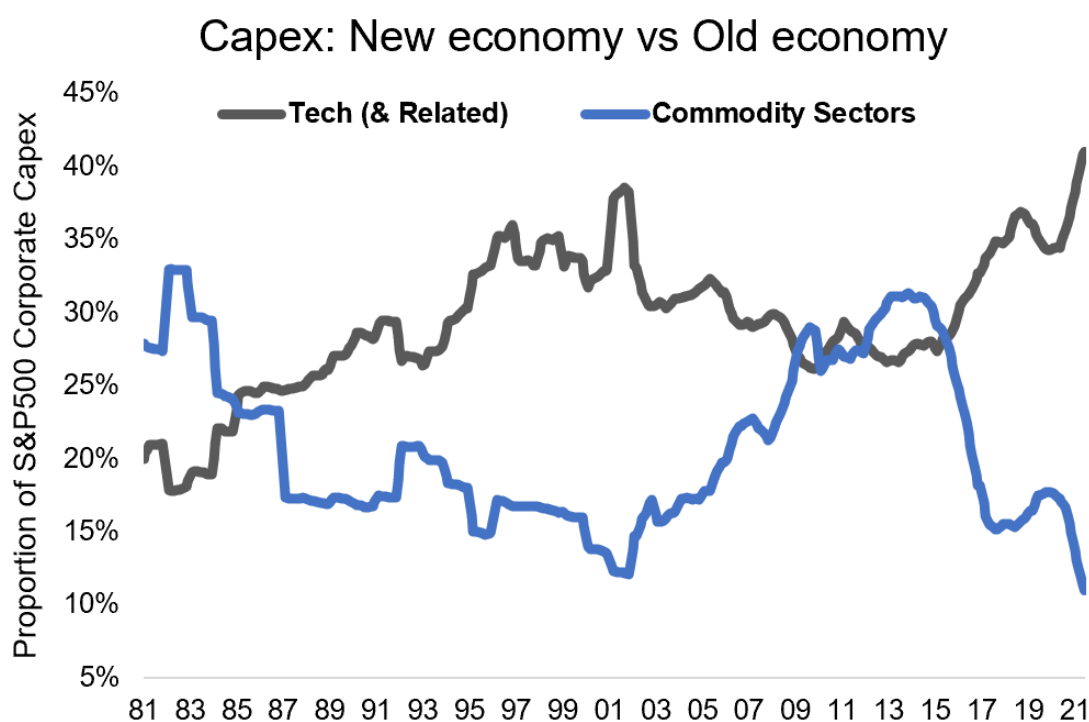
Wait, are commodities cool again?

We think our commodities pick for 2021 performer of the year is looking ok.

Investment returns following underinvestment

Outsized returns tend to favour the brave (first capital in), as opposed to trading the momentum. Typically, we find once capital expenditure programs get ramped up in industries, the party is closer to the end.

Commodities have seen a 10-year underinvestment period, with a lot going to the winner of the past 10 years (i.e. technology). The chart below paints the cyclical nature of capital expenditure, where it can rotate in extremes with the parallels between 2001 and 2021...



Source: Topdown Charts, Refinitiv Datastream, I/B/E/S

topdowncharts.com

Commodities through their more cyclical nature require a closer eye than some of your other holdings. However, presently we think they remain an unloved, underrepresented investment within market indices.

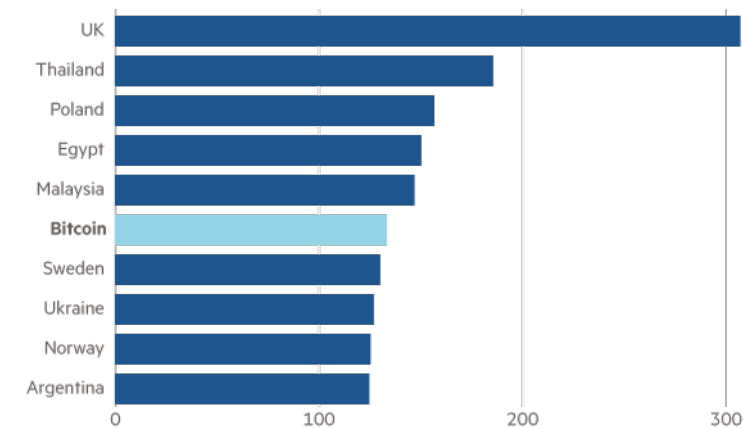
With energy now garnering more traction and share prices starting to rally, we suggest you keep an eye out for some sell-side analysts "upgrading" their views on these companies 😊.



Even if you are long “the coin” you should perhaps consider commodities.

Bitcoin consumes around half as much electricity as the UK

Annualised consumption of bitcoin, compared with countries' readings (TWh)



Using assumption that electricity cost paid by miners globally is \$0.05 per kWh. Bitcoin data from May 19 2021.
Country data from 2019 or most recent year
Source: Cambridge Bitcoin Electricity Consumption index
© FT

Challenging the ESG narrative

Environmental, social and governance (ESG) feels like it has been the backbone of investment banks revenue line for quite a while. Our readers know our view on ESG is one riddled with concern.

Fun Fact of the Quarter

c.500,000 gallons of water are required per ton of lithium mining.

Doesn't seem like an environmentally friendly process to us...



EV'ing our way green is not the answer

We frequently find the EV debate is one that lacks depth, long-term thinking and is based on first order thinking. Don't get us wrong, it is politically convenient to talk about this being the direction we are headed, but the data needs to be debated in the context of a broader environmental conversation relating to the implications for our natural resources.

See snippets of research from the Natural History Head of Earth Sciences below:

"The urgent need to cut CO₂ emissions to secure the future of our planet is clear, but there are huge implications for our natural resources not only to produce green technologies like electric cars but keep them charged.

To replace all UK-based vehicles today with electric vehicles (not including the LGV and HGV fleets), assuming they use the most resource-frugal next-generation NMC 811 batteries, would take 207,900 tonnes of cobalt, 264,600 tonnes of lithium carbonate (LCE), at least 7,200 tonnes of neodymium and dysprosium, in addition to 2,362,500 tonnes copper.

This represents, just under two times the total annual world cobalt production, nearly the entire world production of neodymium, three quarters of the world's lithium production and at least half of the world's copper production during 2018. Even ensuring the annual supply of electric vehicles only, from 2035 as pledged, will require the UK to annually import the equivalent of the entire annual cobalt needs of European industry.

The drain on resources would be felt globally, and not just in the U.K., the letter continues:

If this analysis is extrapolated to the currently projected estimate of two billion cars worldwide, based on 2018 figures, annual production would have to increase for neodymium and dysprosium by 70%, copper output would need to more than double and cobalt output would need to increase at least three and a half times for the entire period from now until 2050 to satisfy the demand.

Certainly, seems environmentally friendly to us...considering the significant increase in use of our natural resources to hit these political targets and **we haven't even considered where the batteries go once their useful life has passed.**



Renewables first, safety second

In the US, we heard a story of a Texan family that were forced to sleep together in the same bed for body warmth to ensure their son could survive through the night during their recent power crisis. A crisis caused by a lack of baseload power....

We all want a cleaner globe for our children, and we support renewable energy – we just want to make sure we get there safely and rationally, free of political power.

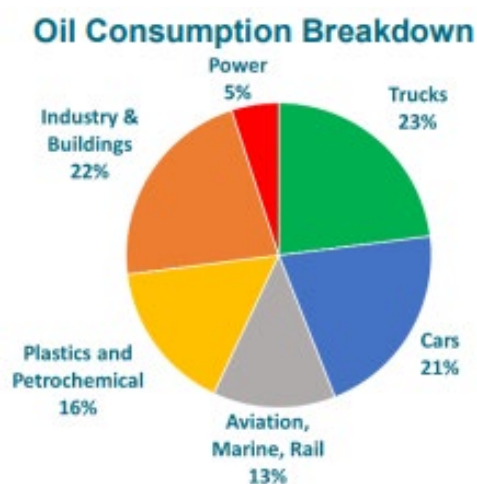
ESG creating Alvia opportunities

ESG filtering has become a subjective exercise resulting in stranded assets... basically anything related to the coal industry is bad and anything related to the EV industry is deemed good (ironic considering what we outlined earlier).

This filtering is causing old world sectors to become just plain old cheap.

Oil continues its price run and so does the supply shortages

Oil has been thrown out as it is apparently being displaced by electric vehicles. However, when we look at the global oil consumption breakdown it tells us a very different story – cars only reflect around 1/5 of consumption – again more first order thinking.



Source: Packer & Co



Oil gets a lot of negative attention – recall last year when prices went negative in the US and that was the only thing you heard about. Nothing about its significant rally from these basement levels.

It now sits above US\$70 per barrel where shale works, however, capex and drilling continue to decline, causing a further strain on the supply. There is a dry up of capital supporting these projects as they aren't "ESG friendly". Historically, oil has never had a genuine supply shortfall, however, it appears one may be emerging now, where supply could be c.1m – 2m barrels a day short of demand.



In our view, oil has become a stranded asset proposition at the mercy of activism despite the globe's very genuine baseload need.

Perhaps we see that history repeats itself and cost push inflation emerges from a supply shock...

Source: Goehring & Rozencwajg



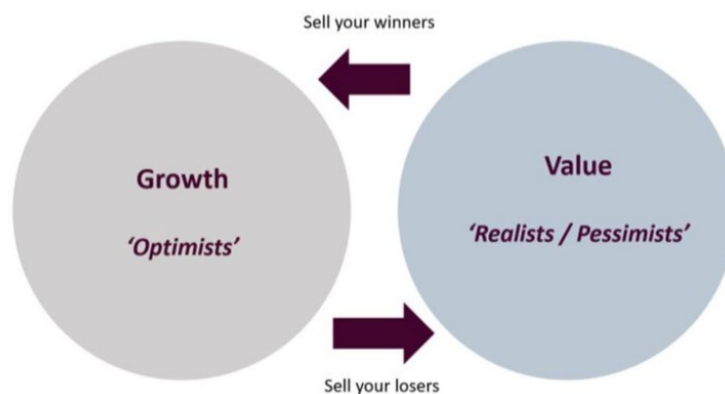
Beautiful... Clean... Coal.

Our clients would have seen during the quarter we added Aurizon Holdings (ASX:AZJ) to the portfolios. 30% operating margins, which resemble that of the FAANG stocks (Facebook, Apple, Amazon, Netflix and Google). However, we purchased Aurizon on a circa 7x EBITDA with a 7.5% dividend yield.

This month, we are hearing of coal imports into Europe to cover the energy demand. Europe gas inventories are about 25% below their 5-year average.

We love the below image...a simple tongue in cheek. As value investors we will always attempt to find opportunities like AZJ amongst gloomy pessimism and then likely sell too early into optimism before the real momentum to the forward-looking growth minded optimists.

A huge simplification of the relationship



Source: Dundas Global Investors



Admitting mistakes

We have an investment journal littered with hundreds of these. We always think if you don't admit them then you aren't learning. Many of ours relate to letting things go through to the keeper that end up being great success stories or selling good businesses early.

Plenty of others relate to getting an opportunity in a quality business on a broad market event but waiting for a better price that never comes.

You are better off to own it and move on.

Munger/Buffett mistake methodology re Google miss

At the 2019 Berkshire Hathaway annual meeting they relayed the following:

***Munger:** And of course if something is extreme as this internet development happens and you don't catch it, other people are going to blow by you. And I don't mind not having caught Amazon early, the guy is kind of a miracle worker, it's very peculiar, I give myself a pass on that. But I feel like a horses ass for not identifying Google better. I think Warren feels the same way.*

***Buffett:** Yeah*

***Munger:** We screwed up*

***Buffett:** He's saying that we blew it. And we did have some insights into that because we were using them at Geico and we were seeing the results produced, and we saw that we were paying \$10 per click or whatever it might have been for something that had a marginal cost for them of exactly \$0...*

***Munger:** We could see in our own operations how well Google advertising was working and we just sat there sucking our thumbs. So we are ashamed, we are trying to atone.*



We've put together a little guide to help you out.

When to sell?

- Buying is the easy part and selling is exponentially more difficult.
- Holding onto falling value traps and topping up dogs is a really bad long-term approach to investing.
- Munger references this repeatedly as a key lesson he has learnt from and one that has cost him billions of dollars.
- Add this to not learning from historical lessons and allowing them to repeat. Our lesson in this is to not be afraid to average into good businesses; and move on from bad businesses quickly as they tend not to improve over time whereas good businesses do the hard compounding work for you.
- We have learnt over and over again that selling good long-term compounders is not a good idea... hence, we have simplified our process by adding the two questions below before selling anything.

Ask yourself simple questions

- Is the business better than last year?
- Is it a true compounder?
- Is the business egregiously overvalued?

If you are unsure what a compounder might look like, here is an infographic to help you out!



Source: Akre Funds



Property party

In the US, there were 3 states that grew 20%+ over 12 months.

City	1-Year %	3-Year %	5-Year %	10-Year %	15-Year %	20-Year %	All-Time High Date	Months From High	% Below All-Time High
Phoenix	22.3%	40.7%	58.8%	148.8%	10.9%	133.8%	4/30/2021	0	0.0%
San Diego	21.6%	29.5%	48.2%	112.4%	31.5%	167.9%	4/30/2021	0	0.0%
Seattle	20.2%	28.6%	63.5%	135.3%	84.9%	193.5%	4/30/2021	0	0.0%
Boston	16.1%	25.2%	42.1%	78.3%	48.4%	116.9%	4/30/2021	0	0.0%
Dallas	15.9%	22.3%	39.9%	98.1%	83.5%	105.8%	4/30/2021	0	0.0%
Portland	15.4%	23.4%	42.6%	110.8%	63.1%	169.3%	4/30/2021	0	0.0%
Denver	15.4%	24.2%	45.3%	113.5%	90.1%	122.6%	4/30/2021	0	0.0%
Tampa	15.4%	28.3%	46.4%	107.5%	11.6%	134.0%	4/30/2021	0	0.0%
San Francisco	15.1%	20.0%	39.5%	135.4%	43.6%	134.7%	4/30/2021	0	0.0%
Charlotte	15.0%	26.4%	41.8%	77.1%	58.3%	89.1%	4/30/2021	0	0.0%
Los Angeles	14.7%	20.7%	37.1%	98.7%	23.8%	194.9%	4/30/2021	0	0.0%
Miami	14.2%	23.1%	36.0%	106.9%	3.3%	153.1%	4/30/2021	0	0.0%
Washington	13.6%	20.7%	28.0%	50.5%	7.8%	129.3%	4/30/2021	0	0.0%
New York	13.5%	17.5%	27.5%	39.2%	7.5%	99.9%	4/30/2021	0	0.0%
Detroit	13.3%	21.1%	39.0%	121.2%	17.4%	36.4%	4/30/2021	0	0.0%
Cleveland	13.2%	23.8%	35.1%	49.5%	21.6%	42.0%	4/30/2021	0	0.0%
Las Vegas	12.4%	25.6%	51.0%	131.5%	-4.5%	108.7%	4/30/2006	183	-4.5%
Atlanta	12.3%	22.7%	36.5%	71.1%	33.3%	63.5%	4/30/2021	0	0.0%
Minneapolis	11.3%	21.6%	37.6%	88.0%	19.2%	76.7%	4/30/2021	0	0.0%
Chicago	9.9%	12.9%	19.9%	41.0%	-4.4%	44.0%	3/31/2007	171	-6.4%
20-City	14.9%	21.9%	37.1%	82.3%	24.1%	121.4%	4/30/2021	0	0.0%

Could this be further exacerbating real inequality

This is no doubt going to become a hot button issue. There exists a proposal currently for minimum global tax rates. This is a very divisive topic with stock prices and house prices going up in tandem. The non-holders have now missed out and are becoming quite vocal about that.

People are able to ignore stock prices, but they cannot ignore gains on houses. We all need shelter. There are large cross sections being priced out of the housing market at the same time institutional investors are entering the market on the back of momentum.

Remember at the beginning when we said institutions were going to be very competitive on getting their yield.

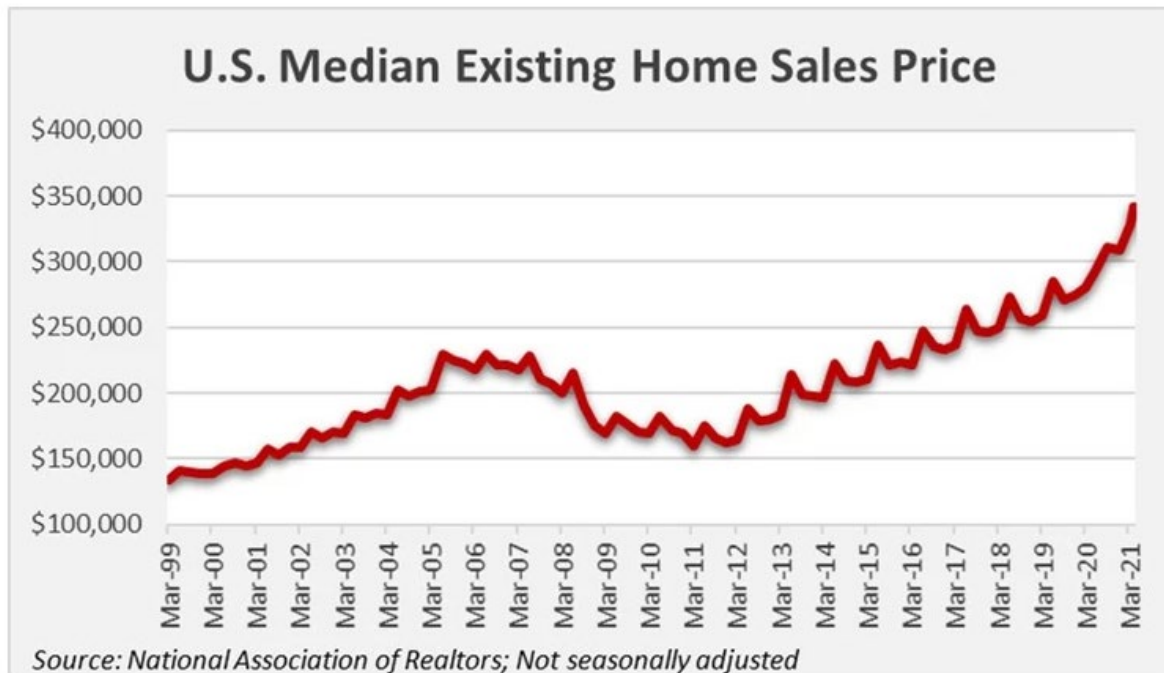


CulturalHusbandry @APhilosophae

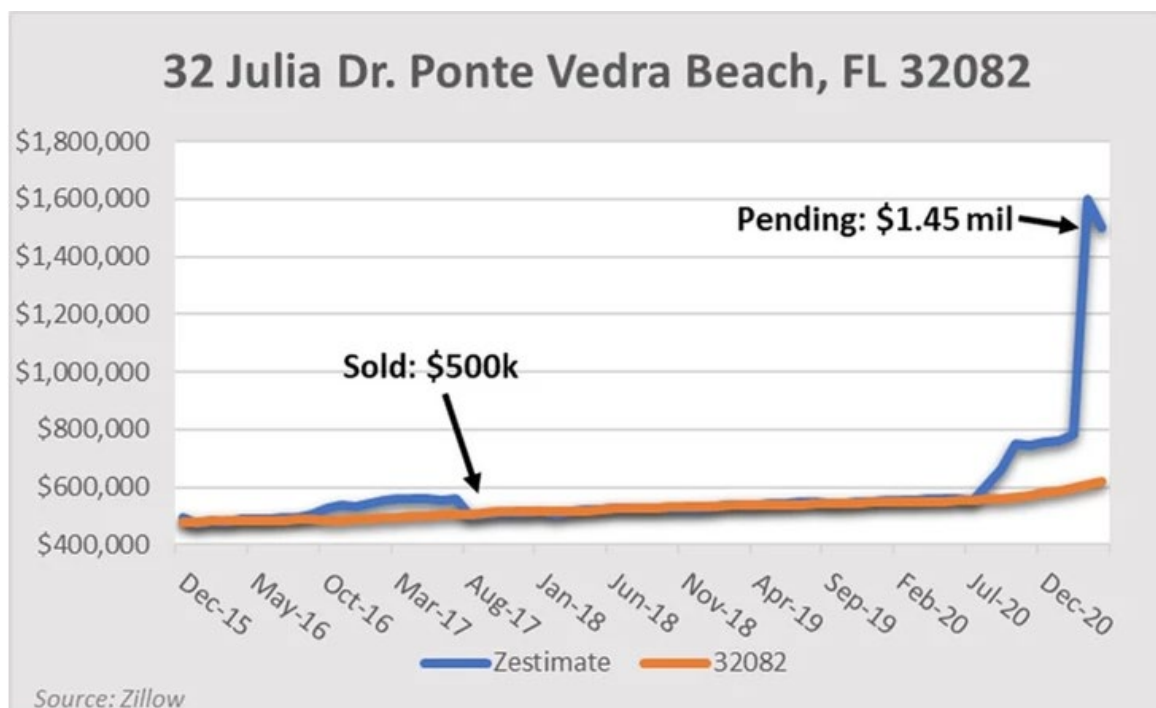
Thread. Blackrock is buying every single family house they can find, paying 20-50% above asking price and outbidding normal home buyers. Why are corporations, pension funds and property investment groups buying...



If You Sell a House These Days, the Buyer Might Be a Pension FundYield-chasing investors



A fund manager in the US used one property in question to highlight a case study of the recent price movement which has certainly favoured more Covid friendly areas such as Florida.



Source: Palm Valley Capital Fund



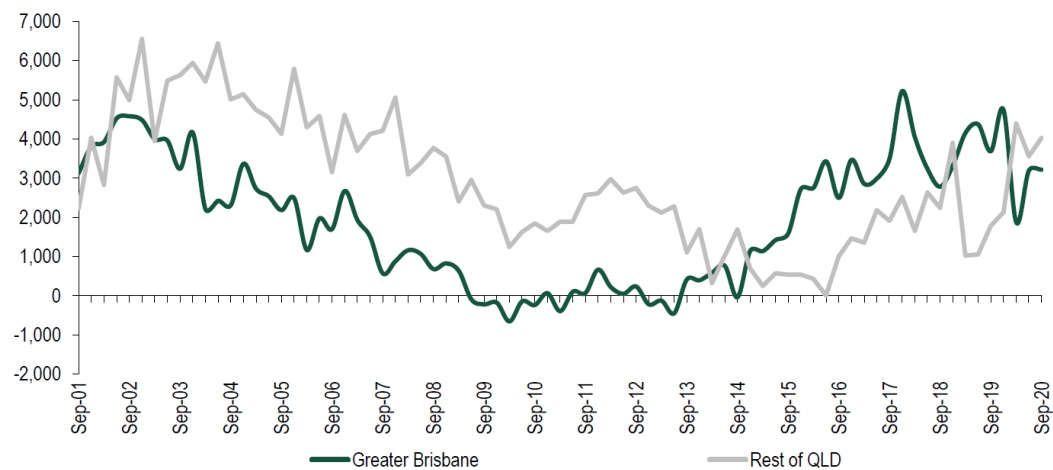
Looking locally

There appears to be a lot of people trying to join Alvia in the Sunshine State...

They moved to QLD

Queensland Net Internal Migration Estimates

Source: ABS 3101.0

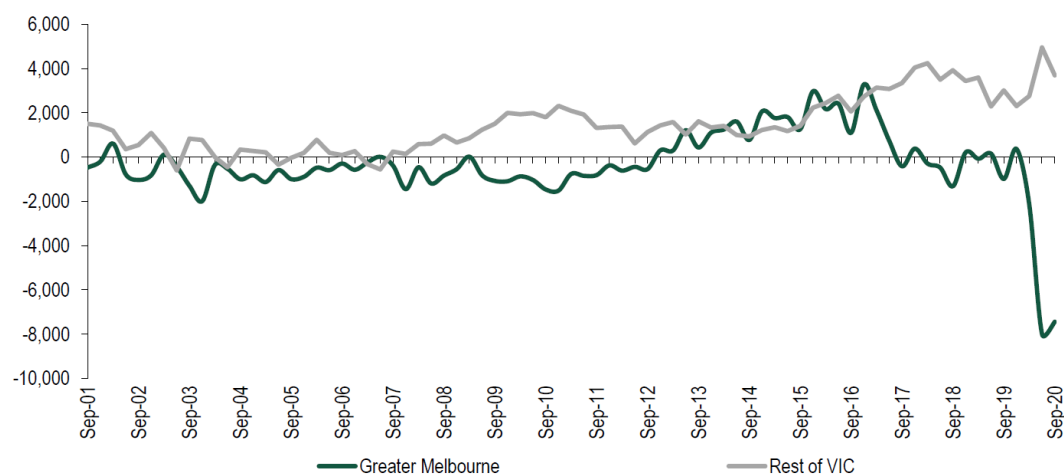


We wonder where they could be coming from...

Last person out of Melbourne ...

Victorian Net Internal Migration Estimates

Source: ABS 3101.0





But perhaps WA is the new place to be?

Thanks to the GST redistribution, WA might be where you actually want to go, with QLD, NSW and VIC losing in every scenario.

We struggle to see this happening without a big stir, especially in a new COVID lockdown world that has fractured state relationships.

Table 1 – Difference in GST distribution based on former and new system, 2027-28 (\$m)

Scenario	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
1: NSW and Vic stamp duty growth slows	-250	-196	-124	1,636	-17	2	-7	29
2: A decrease in WA's mining revenue	-105	-67	-6	1,185	18	14	1	35
3: Replicate mining boom scenario	-1,365	-1,178	-846	4,856	-258	-70	-70	6
4: Replicate 2011-12 relativities	-208	-193	-142	1,611	-21	1	-8	35
5: Replicate 2010-11 relativities	-332	-287	-224	1,955	-46	-7	-14	29
6: Relativities return to 10-year average	-1,198	-1,009	-744	4,360	-220	-58	-60	2

Source: Victorian Department of Treasury and Finance

Value over growth still the opportunity

The forward price-to-earnings (PE) ratio of growth relative to value (growth/value) is at a post-dotcom bubble high, at close to a 1.8x premium. In comparison, the long-term average since 1980—excluding the late 1990s tech bubble—is 1.4x.

Simply stated, relative valuations for growth companies are elevated and look vulnerable, especially if interest rates rise.

"What the wise do in the beginning, fools do in the end."

- Warren Buffett

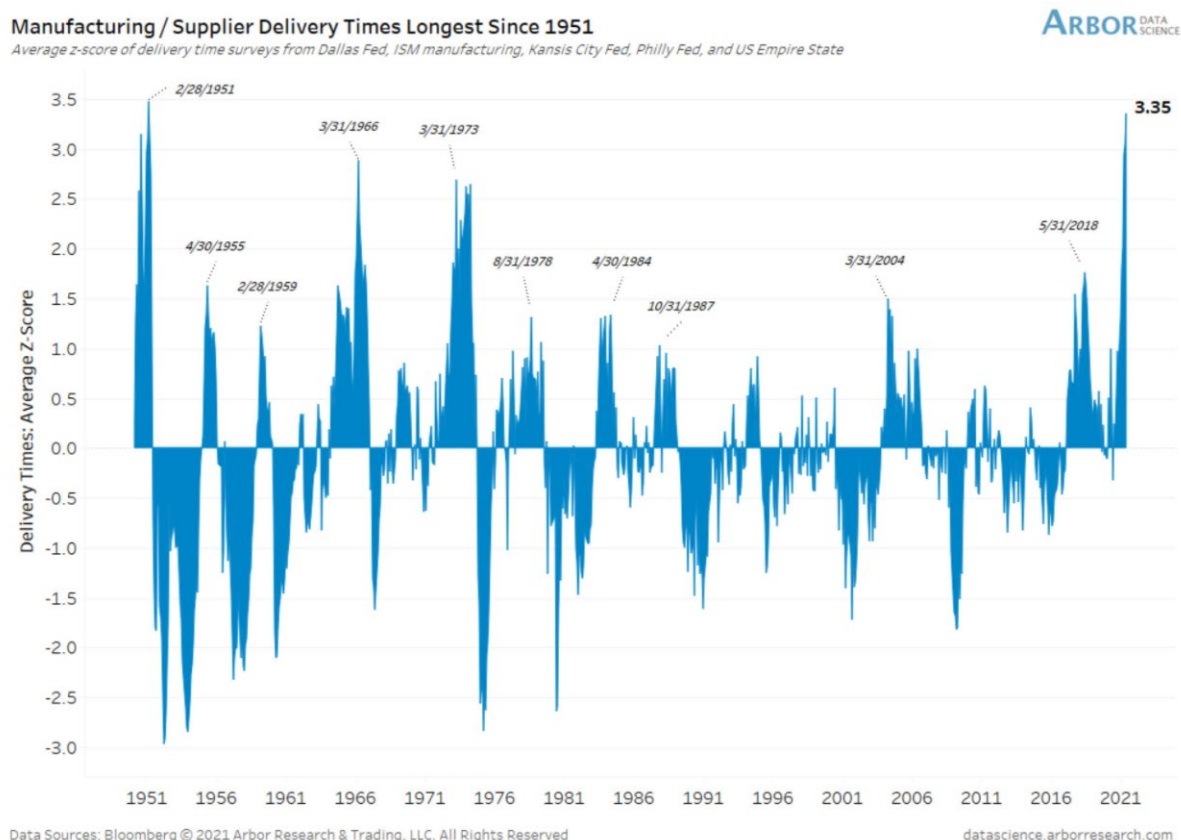


A little more on inflation

We try to avoid doubling up on information, but because of how pivotal this is to asset prices, we think it deserves a little more attention.

Whenever we now mention inflation, we are slapped in the face with the transitory argument of prices increasing significantly only due to the supply bottlenecks around the world. These bottlenecks have inflated 😊 the prices. We do not dispute that these bottlenecks are eventually worked through and the wait for lounges eventually declines.

Here is even the data to back this up, with delivery conditions being the worst since 1951.

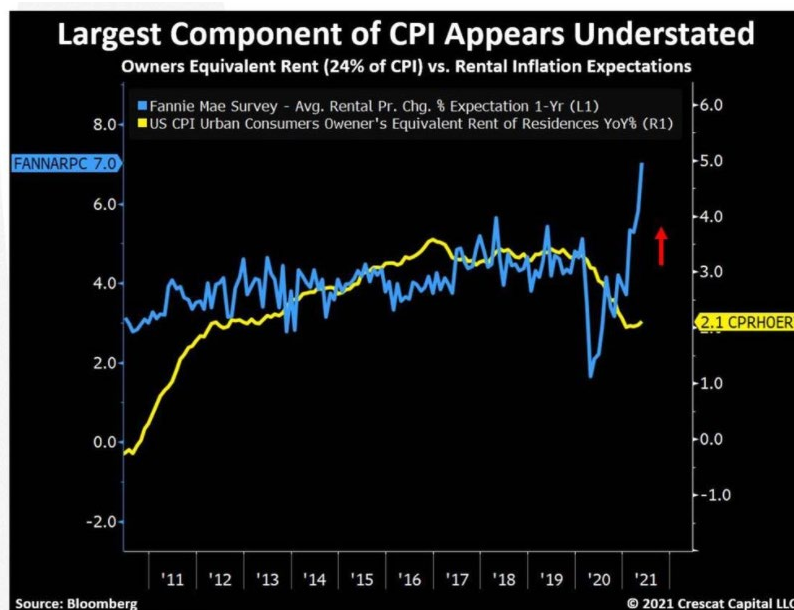


However, we think we should take a look under the hood to see what might be there.



Ren(t)transitory

A significant portfolio of the CPI basket includes rent (24%). These rent increases (paired with wages) are typically longer lasting impacts. Reining these in once they get moving can be quite difficult.



With this potential increase in inflation... would this not mean that **interest rates become the beacon?**

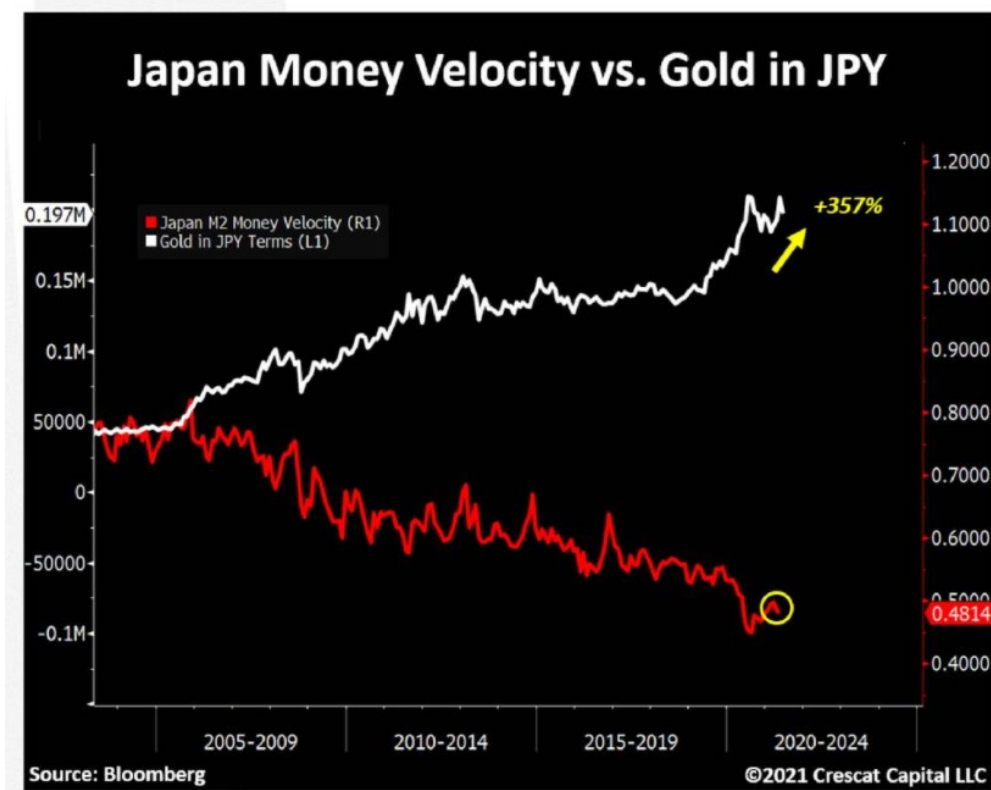
Bond yield curves are flattening out which suggest volatility ahead. A potential cause is the concern around vaccine efficacy against new COVID-19 strains and central bank QE tapering. Longer term normalisation is more a question of when and how much, not if.

Our view would be less of a discussion about rates, at least initially and more about the tapering of QE policies. Rates themselves are becoming harder to lift with the extreme global balance sheets that are starting to look very stretched.

How about we look at an extreme circumstance where there is **no long-term money velocity, limited growth, and inflation with just steady increases in supply.**

Luckily, there is already an example of this, thanks to Japan. We know that Japan is a very different proposition to the US but you can't argue that they aren't pushing the extremes of their balance sheets.

It appears that gold and commodities have done ok.





How Alvia is looking to hedge?

This is the basic way we are looking to hedge unexpected inflation. Commodities with a tilt to oil and a dash of gold.

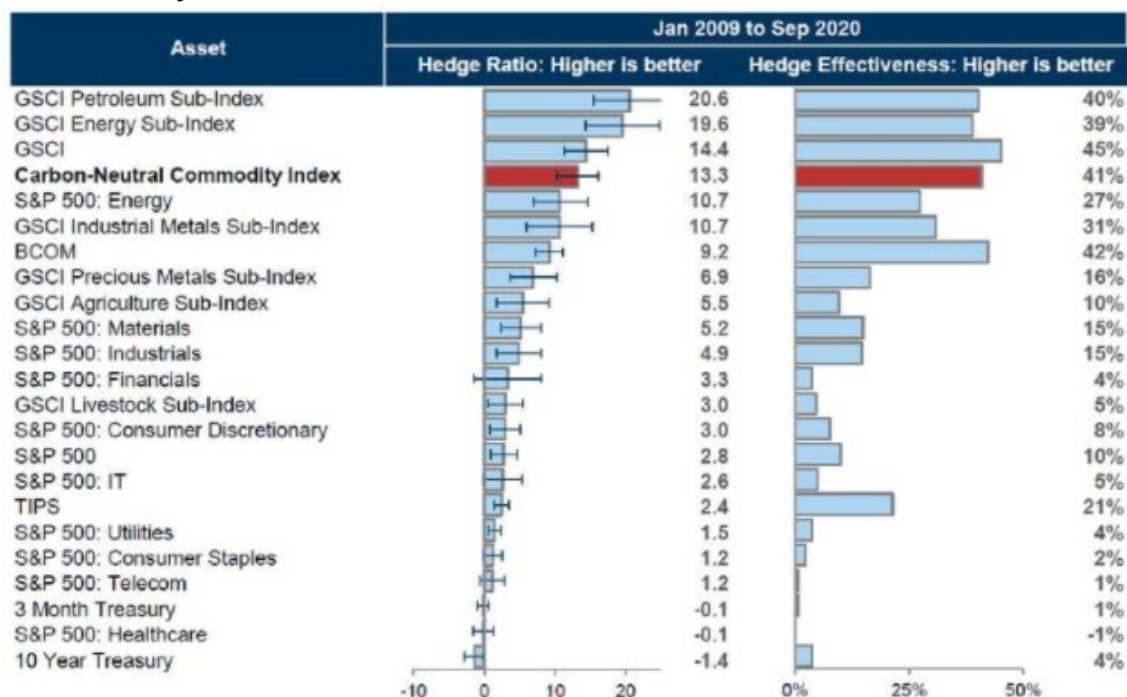
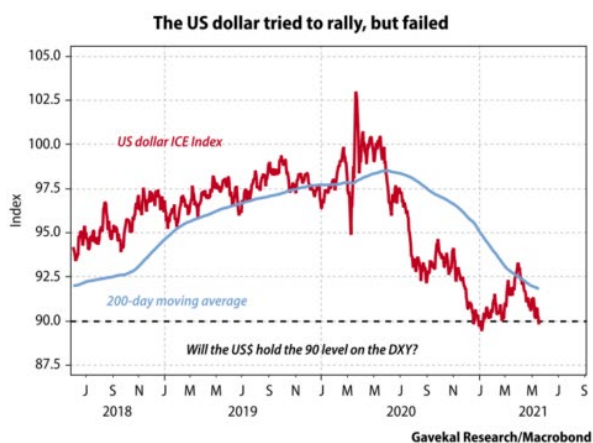
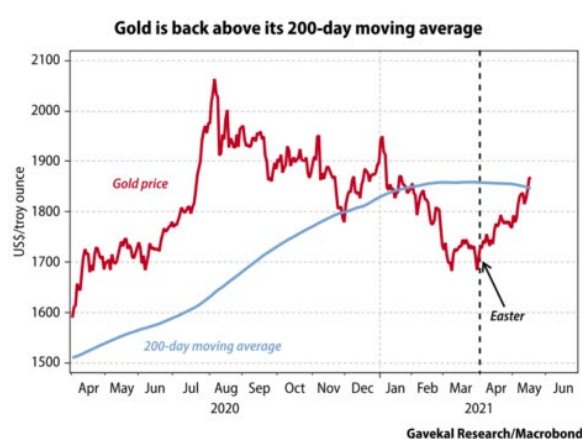


Exhibit 9: Hedge ratio & Hedge effectiveness vs. inflation

Source: Goldman Sachs Global Investment Research

Gold starting to garner a touch of attention

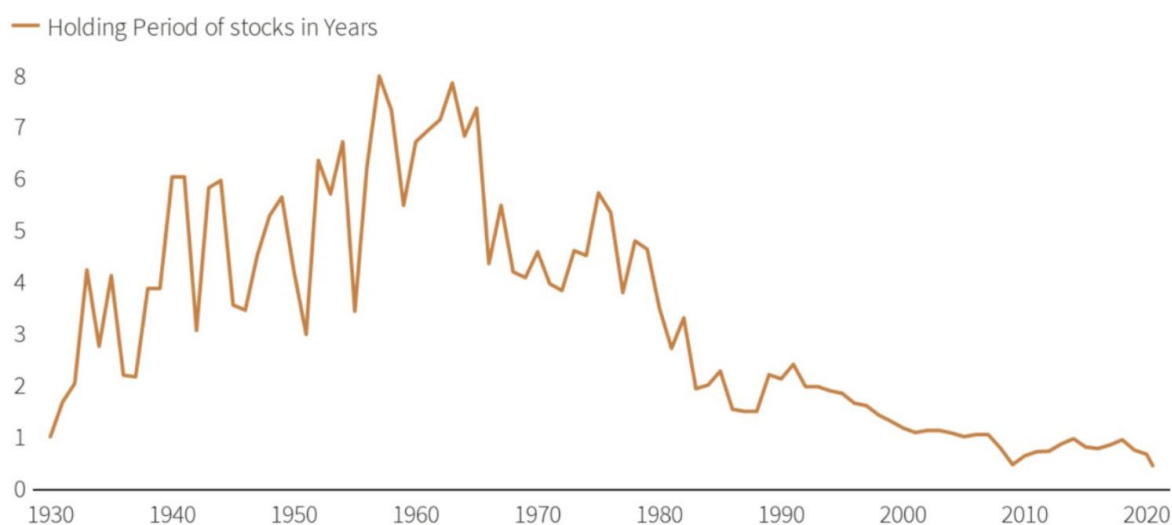




Robinhood to IPO

Having a skim through the Robinhood initial public offering (IPO) filing makes for a great horror story. Supposedly 50% of its clients are first time investors. It has a significant amount of cryptocurrency trading and is quite opaque on the margin it is making on these retail punters.

We call them punters because it appears the traditional buy and hold strategy is out of fashion and that turnover is the new game.

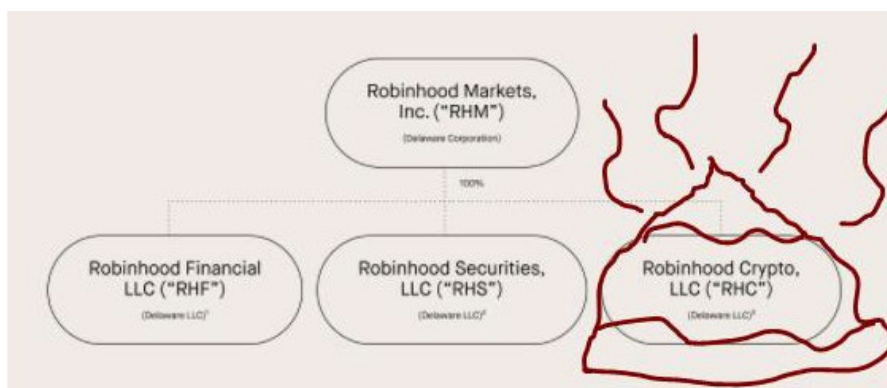


Note: Holding periods measured by value of stocks divided by turnover
Source: NYSE, Refinitiv

Robinhood states it has a mission to “democratize finance for all”... but yet almost all of its revenue is generated from selling order volumes to institutions, so we really wonder who is winning in that scenario.

“The company's mission to 'democratize finance for all,' is similar to Pablo Escobar saying his mission was to 'democratize cocaine.’”

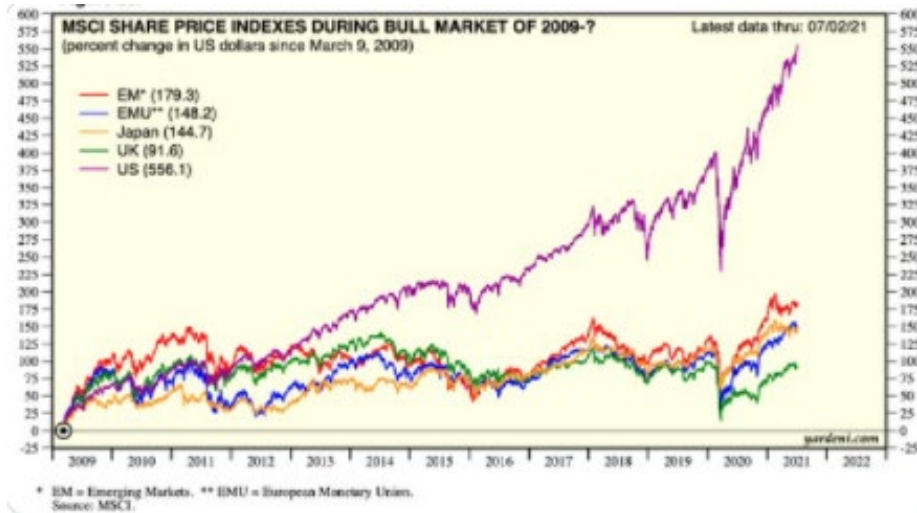
- Scott Galloway



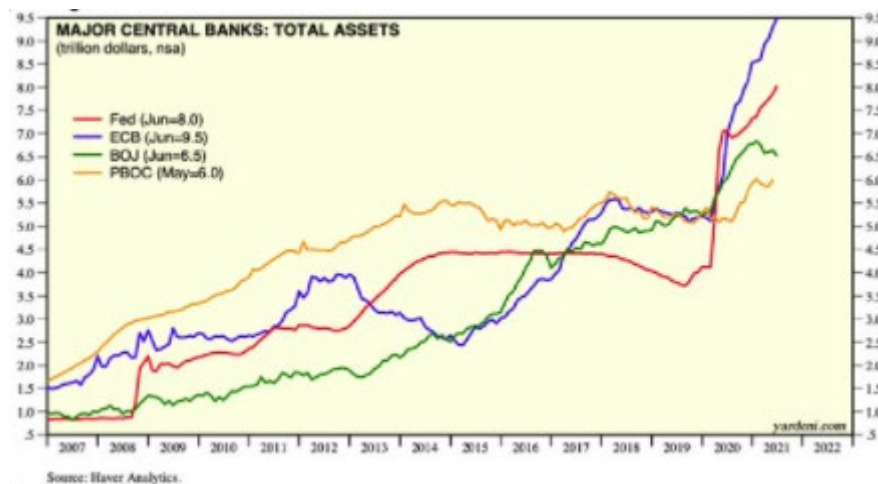


The US outperformance

It is very easy to sit back and proclaim that the US has outpaced other equity markets due to Fed printing.



However, the Fed printed less than the European Central Bank (ECB).



Perhaps the real reason for outperformance is the extreme concentration to high flying technology names.



Is Cathie Wood losing her touch?

For those who don't know who Cathie Wood is, she was brought to fame in 2020 when her investment firm Ark Invest was the best performer for the year, with people proclaiming she is perhaps the greatest investor of the decade. Bloomberg released an article "Cathie Wood Risks Having Too Much Money and Not Enough Stocks" as people apparently couldn't get enough of her supposedly revolutionary investment style and how she was the messiah of tech investing.

From 2015 to 2019, the fund returned 172.14%, equating to a 22.2% p.a. return (we would like to note this is an underperformance relative to the Nasdaq). However, in 2020 Wood managed to return 152.51%, taking her returns to 37.7% p.a.

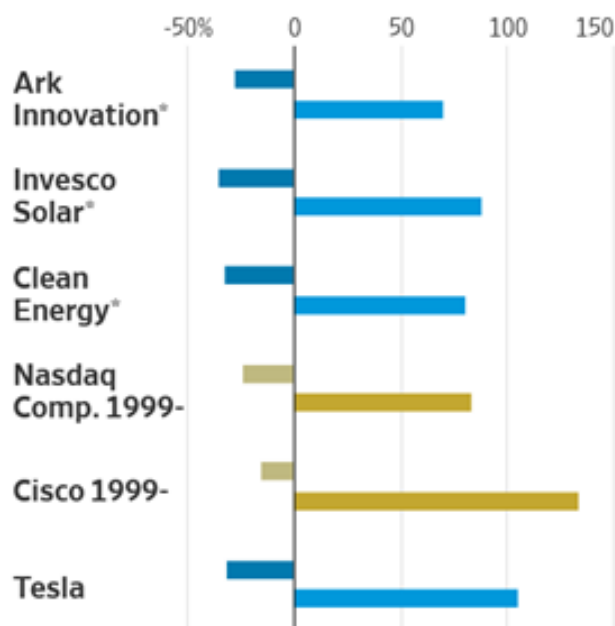
Her performance since then has struggled whilst most indices continue to reset their record highs. Perhaps the themes of last year (any and all tech works) aren't holding up this year, perhaps she is experiencing what most investors do in late cycle markets – the price paid and fundamentals actually do matter in the long run.

At the end of the day, we respect what she did in 2020 but what we think makes a great investor is someone who can repeatedly do it, year after year, decade after decade.

Dot-Com Echo

Change in price

■ Peak to June 16 ■ September to peak



*ETF, 1999-2000 for Nasdaq Composite and Cisco

Source: Refinitiv



Building or renovating...pays to wait 12 months

In May, the price of lumber was up 300% year-on-year after spending the last decade moving sideways. Whilst this has largely been driven by real demand, it is always important to highlight the role of a speculator getting in on the action.

We recently listened to a hedge fund manager prophesising that prices could remain at these levels indefinitely. It is amazing how momentum can become self-fulfilling.

Lumber now trades 40% below that price point.

COVID chat

We will try to keep this limited as it is definitely starting to bore a hole in everyone's minds.

How the 0.01% managed through COVID

They take the yacht to Greece of course. We look forward to seeing how tourism hubs use softer COVID restrictions to entice tourism back.

Much like a currency war, a new quarantine war could emerge with Greece first out of the blocks, removing the need to quarantine with any proof of vaccination or a negative test.



Superyacht positions, as of June 25, heat-mapped in yellow.



Australia's problem

We aren't going to blame a specific government here... it really is both levels of bureaucracy, making it a game of power with the care of citizens coming second.

Australia has performed well on the resilience basis which is entirely attributable to being an island.

Covid Resilience Ranking

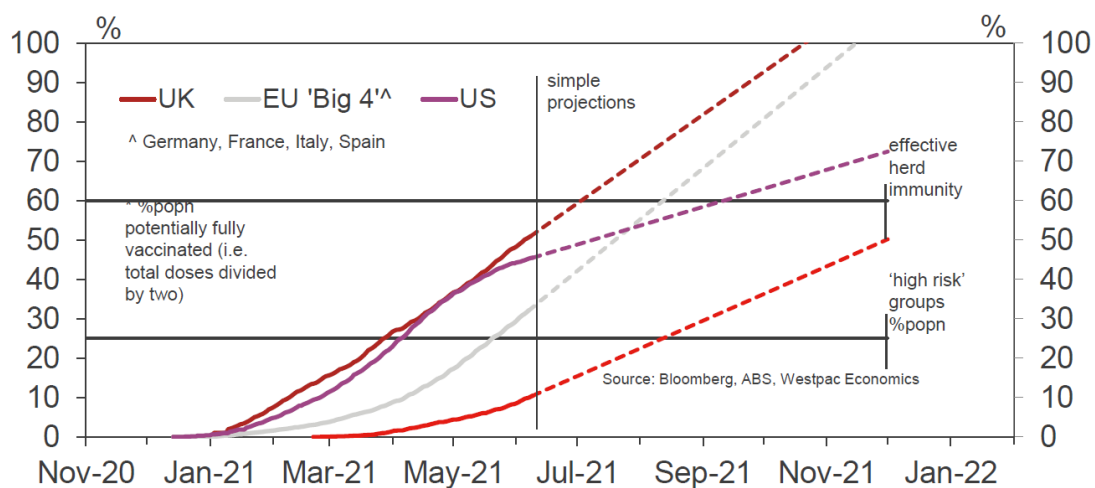
← Worse Better →

Get info and sort on table headers

RANK	ECONOMY	BLOOMBERG RESILIENCE SCORE	REOPENING PROGRESS		COVID STATUS ▼	QUALITY OF LIFE ▼
			PEOPLE COVERED BY VACCINES	LOCKDOWN SEVERITY		
1	U.S.	76	50.3%	47	-20.1%	334
2	New Zealand	73.7	10.3%	22	-31.3%	140.5
3	Switzerland	72.9	41%	48	-69.9%	365.5
4	Israel	72.9	59.1%	22	-63.7%	134.5
5	France	72.8	40.3%	48	-59.3%	346.5
6	Spain	72	41.7%	54	-54.7%	365
7	Australia	70.1	14.2%	50	-35.3%	136.5
8	Mainland China	69.9	40.8%	78	1.7%	121.5
9	U.K.	68.7	57.1%	51	-77.8%	216.5
10	South Korea	68.6	19.2%	50	-46.4%	137
11	Norway	67.9	36.5%	59	-59.9%	133
12	Denmark	67.5	43.2%	50	-73.2%	173.5
13	Singapore	67	44.1%	58	-83%	137
14	Turkey	66.9	28.2%	63	-39.2%	354.5
15	Saudi Arabia	66.9	25.2%	54	-44.2%	349

Key problems

- Lack of direction from both state and federal governments on the vaccination rollout
- We are coming off a very low infection base, meaning herd immunity is sometime away
- The red line below shows a mid to late 2022 projection



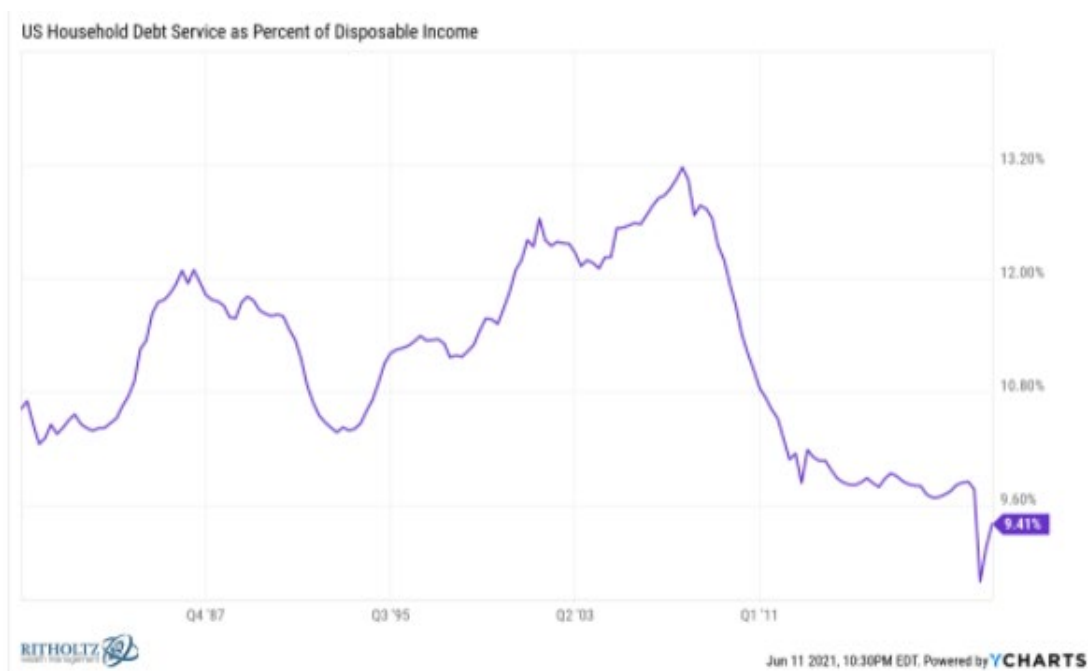
Bill Evans Economic Update



The great personal deleveraging

The US saver is thanking the government for its kindness and generosity. Savings rates remain near all-time highs and credit card debt has fallen some 17% since the end of 2019.

Like market volatility, you can be assured such an elevated rate will not last. Thanks to the Fed and ultra-low interest rates, US Household debt also remains very well supported. You can be rest assured this does not last forever (debt has risen but rates have not).





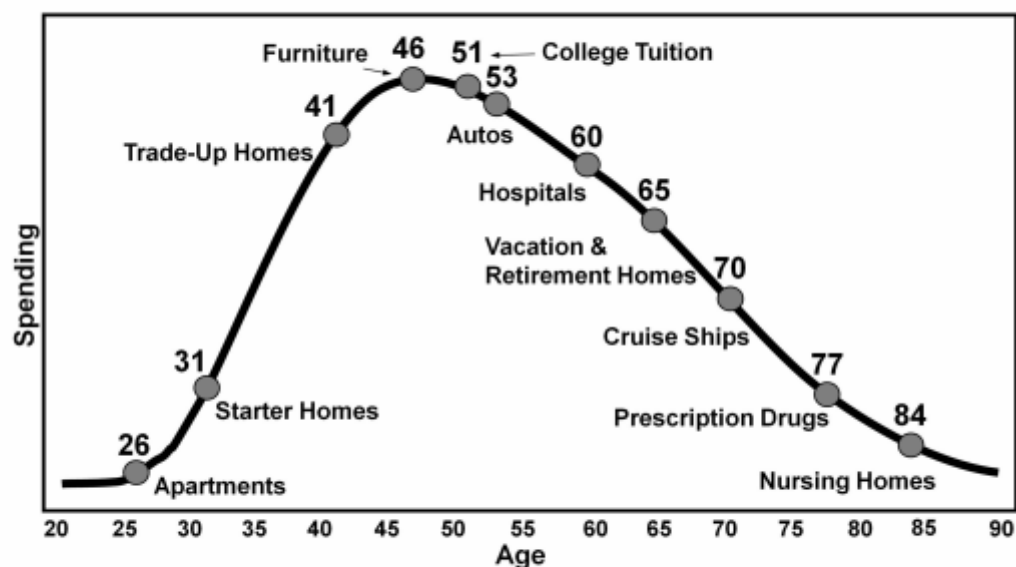
So... who benefits from this? We would like to think the retail spender does.

We debate retail spending in the office a lot. Is the Covid spending an apparition? Or is there a secular trend emerging? Is the wealth effect a real thing?

The recent strength of our long-standing positions in some retail names has increased the intensity of this debate internally. There is a broader consumer life cycle (see below) to consider when investing in retail and the truth remains that baby boomers have aged and are shrinking, whilst millennials are becoming more prominent and they are marrying, procreating and are buying (or trying) to afford their first home.

The most common ages in the US are 29, 30, 28 and 27 versus 50, 49, 19 and 48 just 10 years ago.

Figure 1-1: Consumer Life Cycle



Data Source: U.S. Census Bureau, Dent Research

© Harry S. Dent, Jr.

We all de-consume as we age

All of us, irrespective of wealth tend to downsize and revert to staple consumption later in life, to the point where we simply rely on a bed, a chair, some art on the wall and a cabinet with only very precious trinkets and memorabilia.

In short, we can't rely on the baby boomers for retail spending forever and the millennial cohort is just getting started on their journey.

