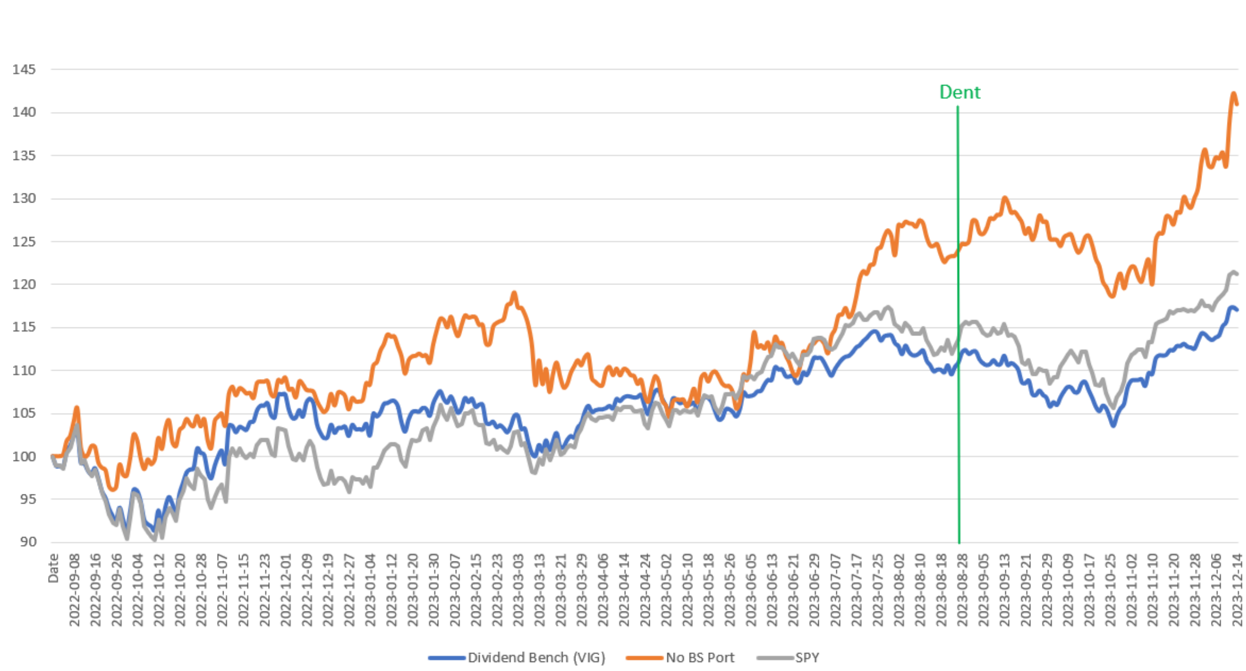
December 18, 2023

The NO BS Growth and Income Portfolio

By John Del Vecchio



New Trades this week: No new trades

Current Portfolio December 18, 2023

Ticker	Name	Return	Days Held	Sector
AVT	Avnet, Inc.	2.07%	95	Technology
CGEAF	Cogeco Communications, Inc.	-18.15%	123	Telecommunications
CIVB	Civista Bancshares, Inc.	24.16%	39	Finance
FISI	Financial Institutions, Inc.	23.96%	32	Finance
HVT	Haverty Furniture Cos., Inc.	34.30%	214	Consumer Cyclicals
MCEM	The Monarch Cement Co.	10.71%	95	Non-Energy Materials
PSX	Phillips 66	38.22%	221	Energy
THFF	First Financial Corp. (Indiana)	26.55%	199	Finance
VLO	Valero Energy Corp.	-0.49%	60	Energy
WEYS	Weyco Group, Inc.	24.38%	32	Consumer Cyclicals

The Risk-O-Meter

The *Risk-O-Meter* remains in the "green zone."

The allocation to small caps throughout the year when the market has been oversold has paid off nicely.

On rebounds, the small-caps have generated some excellent juice relative to the mega-caps in the S&P 500.

It's widely known that a large portion of the returns in the market is driven by the "Magnificent Seven," and the other 493 stocks have barely returned more than holding cash.

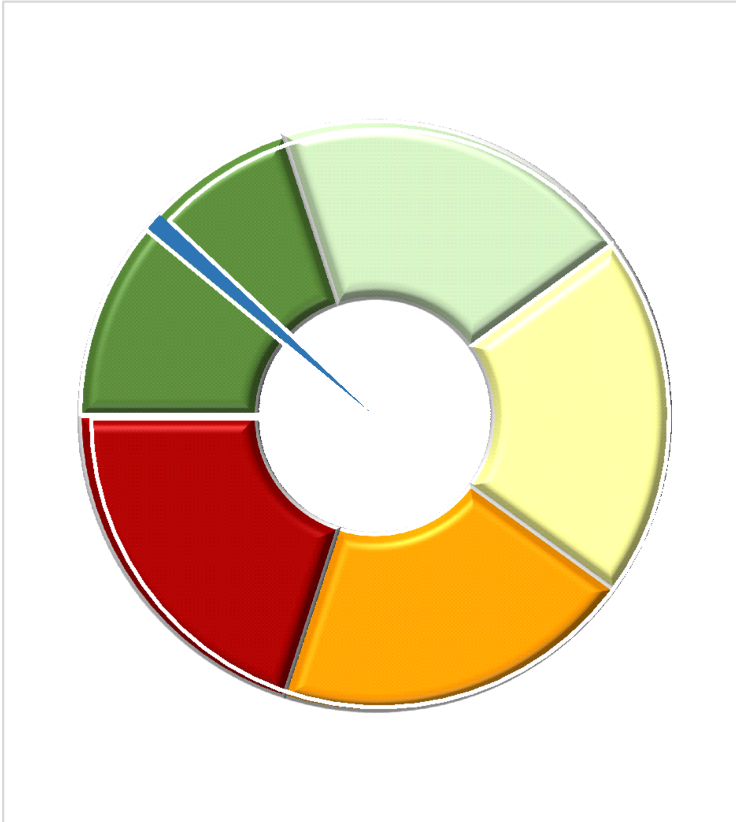
I don't think much matters when markets are "super duper oversold" (my very professional and technical term).

You want juice.

Small caps provide juice.

Furthermore, on a longer-term basis, the spread between small-caps and mega-caps will narrow, which will provide even more performance.

Therefore, small caps remain my focus.



Froth

The other day, I was deep into the holiday cheer and enjoying my favorite beverage this time of year.

A frothy glass of eggnog.

As I read through my emails, I came across a fascinating list containing some froth.

Frothy markets.

The list is provided by my friend Meb Faber, a highly regarded quantitative analyst and best-selling author, and provided by his *Idea Farm* e-letter. The letter provided tidbits on 75 facts from 2023.

As a fan of manias, panics, and crashes, the market froth section caught my immediate attention.

Markets change.

The companies or asset classes that dominate the market change.

The metrics used to interpret market change.

Human nature ***never*** changes.

Human nature can be exploited.

Over and over again.

This is true even in an environment where computers generate most trades.

Like any other era in market history, there was plenty of froth in 2023.

These manias always end the same way.

Lots of losses.

Usually, the Joe Sixpack is caught holding the bag.

Here's the list for 2023:

Market Froth

"Roughly 70 special-purpose acquisition companies have liquidated and returned money to investors since the start of December. That is more than the total number of SPAC liquidations in the market's history" Source: WSJ

Over the past 40 months, the SPAC market has gone from $25 billion to $200 billion and back to $25 billion (*as of August 31, 2023*). Source: Accelerate

114x annual recurring revenue — the multiple at which private, venture-capital-backed SaaS companies raised capital in 2021, up from "only" ~15x to 30x a few years prior (Source: Pitchbook/IVP). Source: Phil Ordway

Stripe did a funding round at a valuation of $50bn (down from $95bn two years ago), purely to manage liquidity and options for its employees. Source: Stripe

Tiger Global marked down the value of its investments in private companies by about 33% across its venture-capital funds in 2022, erasing $23 billion in value. Source: WSJ

"Combined, First Republic, Silicon Valley Bank and Signature Bank held more in inflation-adjusted assets than the 25 U.S. banks that collapsed in 2008." Source: FDIC

The dramatic rise and fall of SPACs (aka blank check companies) is particularly noteworthy.

The sector ran up 800% only to crash 80% in three years!

The one that hasn't played out yet like a horror movie filled with a murder scene in a shower with blood and guts is that venture-backed software as a service company raises capital at 114X annual recurring revenue.

That's up from 15-30X not long before that.

Most of those companies will never go public.

Most of them will never be acquired.

The good news here is that Joe Sixpack mainly isn't invested in these venture-backed funds that are going to lose their ass unless he has a pension plan and the management team has an allocation to these types of funds.

Another fact that caught my eye but was in the “crypto” section instead of “market froth” (but is just as frothy) is this doozy:

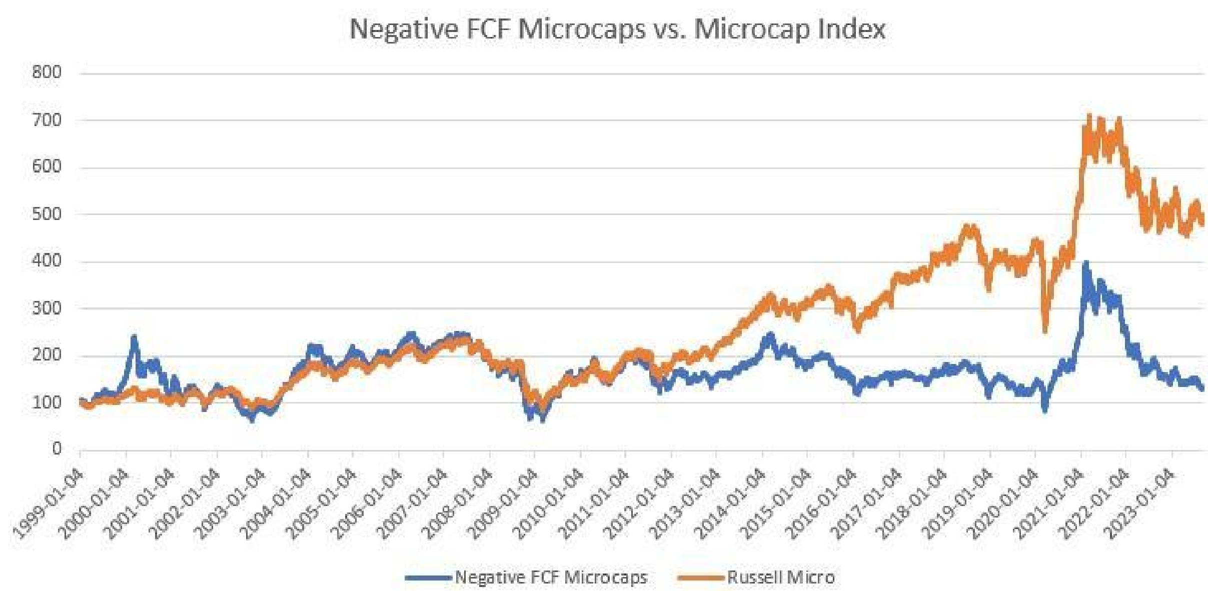
> A new study estimates ~ 95% of people holding NFT collections are currently holding onto worthless investments. *Source: dappGambl*

It never ceases to amaze me how people get caught up in the hype.

Hype don't pay.

Take a look at this chart.

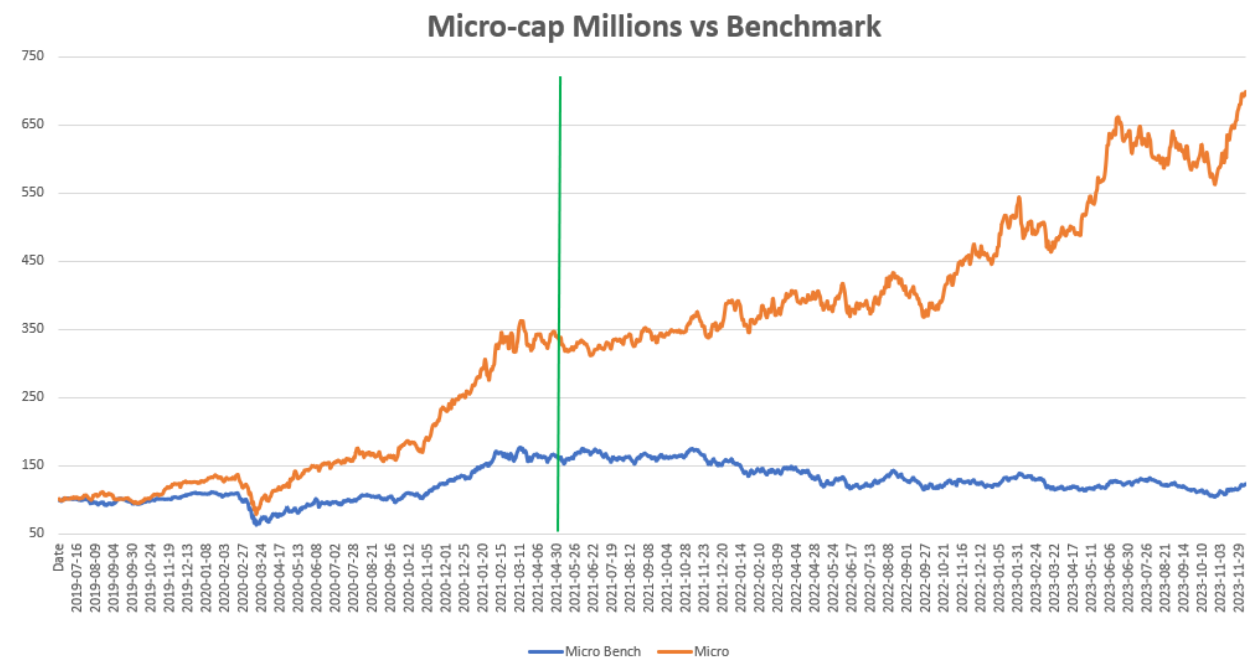
It shows that the most hyped small stocks have generated practically no return in nearly a quarter century!



Worse, these stocks are down about 75% in the last three years.

Now, that hurts.

Now take a look at this chart:



Micro-cap Millions is up 599% since inception in 2019 compared with just 23.2% for the benchmark. The hyped stocks are flat.

Micro-cap Millions is up 49% in 2023 compared with 5% for the benchmark.

This is the advantage of a consistent process.

That's not to say there won't be scary periods. *Micro-cap Millions* still suffered a drawdown of 42.7%. So did the market at 43.6%.

But by ignoring the hype and glossy stories and methodically following a time-tested, unemotional model, the rebound was swift and powerful.

The best thing you can do is ignore the hype, ignore the glossy "story," ignore what your neighbor is doing (really, *really* ignore your neighbor), and methodically invest in time-tested strategies that are not dependent on the day's hot topic to succeed.

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