

Dear Investors,

“What goes down must come up”

“What goes up must come down” is a well-known quote from Isaac Newton to describe the implications of gravity that he observed. What if I told you, I learnt the opposite at one of Singapore’s top junior colleges? Before you decide to reconsider that school application, let me provide some context.

We were trekking in Malaysia and came to a point where the trail ahead was downhill for as far as I could see. Having trudged uphill for days before that, thinking that each step up brought me closer to the goal, it was needless to say that the prospect of going downhill deflated what confidence I had. It was then I heard those words “what goes down must come up”.

Somehow, something clicked after that. The downhill path that was full of gloom turned into one of respite and hope. In fact, we used the change in terrain to regulate the strain on our bodies accumulated from the prior uphill climbs. A more subtle and remarkable benefit was that I was able to appreciate the natural environment better as opposed to when we tended to have our heads hung down when trudging up.

It is commonly said that we forget what we learn in school. However, this lesson in the Malaysian highlands was one that I have remembered and internalised as it speaks at many levels as to how we do things at FAM. And this is without discrediting my Physics teacher; after all I did parlay my schooling in engineering sciences into a profession of investing with a healthy respect for the natural laws of markets.

How do we know what goes up?

How did my instructor know that the downhill trail we were on would lead us to the summit? Was he just there to be a cheerleader while we ambled on aimlessly? Was the confidence because he saw a sign, knew where we were from the map (these were pre-GPS days), or knew the terrain well? It was evident he knew what we were in for, and made sure we were pacing ourselves properly, and had enough resources to go the distance.

We start many journeys with the summit in mind. We have our eye on the prize; that peak that we see in the distance or recall from magazines. What happens when we do encounter that downhill stretch that seems to go on and on, or when the target disappears from view as we cross a valley? Confidence and conviction literally go downhill.

Why am I recollecting experiences from long ago? How is this related to investing?

Actually, there are parallels to investing. One can lose sight of the terminal value of their portfolio when markets are going down, and they see themselves drifting further away from their goal as they focus on recent and potential down moves. The target can also disappear from view when the investments meander in ways that look different from what is popular (people feel less pain when they experience similar losses as others).

How do we keep our eye on the prize when it comes to investing and not lose confidence, especially when the going gets tough?

In the outdoors, we use signs to inform us if we are on the right track, maps to plan and modify our routes, instruments such as altimeters and GPS to moderate our pace, and guides to help adapt to local conditions. There are parallels to investing. Data points are our signs, analytic tools are our instruments to make sense of the data, financial cycles are the maps we take guidance from, and we work with specialists who can help us navigate better.

Sustainable exploration

From mountains, we reach higher into space.

20th July is Space Exploration Day. Here, I see some relevance between space exploration and investing. No, it's not because of meme stocks that are purported to go to the moon. Nor is it about buying stock of Virgin Galactic, Amazon, or Tesla. It is related to Newton's Law of Gravitation which applies whether one is trekking in the mountains, or blasting off into space.

This year's Space Exploration Day is meaningful as a few billionaire space cowboys have succeeded in getting civilian flights into space. But whether you are a rocket scientist working for Richard Branson, Jeff Bezos, or Elon Musk, you have a common problem: How to have the rocket overcome the gravitational force to get into space.

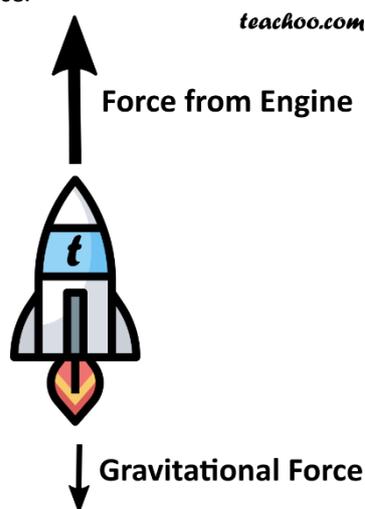


Figure 1 Forces on a rocket

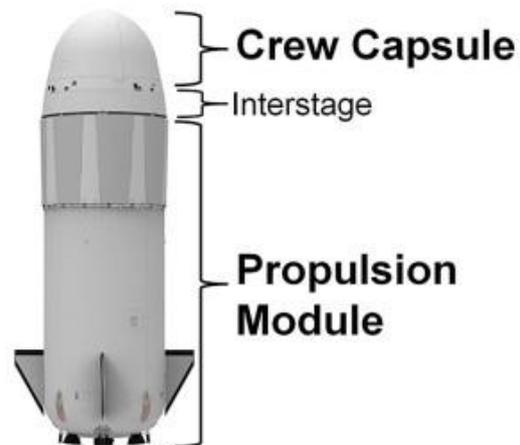


Figure 2 Rocket design

That is largely addressed by having a propulsion module comprised of the rocket engine and its fuel. It is interesting to note that while we have seen leaps and bounds in technology, the core design of a rocket has not changed much since the first launch in 1957: An elongated body that mainly contains a lot of fuel with a small capsule for the crew.

When it comes to investments, companies also have a "gravitational force" they have to overcome. Before it makes its first dollar of revenue, a business already incurs costs and depreciation. These forces are the equivalent of Earth's gravitational force that weigh down on a business. Yet the business can acquire enough escape velocity to overcome this downward pull and continue on an upward trajectory. The question is what kind of fuel is propelling it.

What if you run out of fuel halfway in the sky?

Would you sit in a rocket that does not contain enough fuel to make the whole journey? When it comes to investing, there are people who don't mind getting on a rocket without sustainable propulsion.

This is what shareholders of GameStop are doing. The stock price (and the company's implied value) has been swinging wildly since the start of the year. There have been various reasons for these moves; from a Reddit campaign against hedge funds, to a bet on management turning around an outdated business model. This has caused the stock price to rocket from \$13 to \$325, then down to \$40. There are various forces at work on GameStop, but it looks like a lot of the optimism hinges on the turnaround. However, investors are not just passengers on this journey. GameStop has gone to investors to raise more capital to support the business in December 2020, and April and June this year. Strong rallies in the stock price have followed the capital raising, but ran out of steam and dropped thereafter. Whether this turnaround will be successful is far from certain. Sometimes there are rockets that shoot up into the sky, but do not have enough fuel to sustain. They inevitably fall back to Earth.

Why are we confident that our investments have a long term upward trajectory? **Our investments are propelled by sustainable fuel in the form of Profits, Cash flow, Valuation, Sentiment (components of our FVT).** These means there is intrinsic fuel to power the rocket rather than having to bank on external factors. It also means that it is very unlikely for our investments to go up 2000% or down 88%. But we can agree there are certain kinds of excitement we can live without.

As much as we think we can influence the environment, the forces of Mother Nature are not to be reckoned with. When we invest, markets are our natural environment, perhaps the lessons are similar as well. And if these lessons take a long time to internalise, I think we have a good headstart.

Best regards,



Alvin Goh
Chief Investment Officer

Disclaimer

To the best of its knowledge and belief, Finexis Asset Management Pte. Ltd. (Finexis Asset Management) considers the information contained in this material as accurate only as at the date of publication. All information and opinions in this material are subject to change without notice. No representation or warranty is given, whether express or implied, on the accuracy, adequacy or completeness of information provided in the material or by third parties. The materials on this material could include technical inaccuracies or typographical errors, and could become inaccurate as a result of subsequent developments. Finexis Asset Management undertakes no obligation to maintain updates of this material.

Neither Finexis Asset Management nor its affiliates and their respective shareholders, directors, officers and employees assume any liabilities in respect of any errors or omissions in this material, or any and all responsibility for any direct or consequential loss or damage of any kind resulting directly or indirectly from the use of this material. Unless otherwise agreed with Finexis Asset Management, any use, disclosure, reproduction, modification or distribution of the contents of this material, or any part thereof, is strictly prohibited. Finexis Asset Management expressly disclaims any liability, whether in contract, tort, strict liability or otherwise, for any direct, indirect, incidental, consequential, punitive or special damages arising out of, or in any way connected with, your access to or use of this material.

This material is not an advertisement and is not intended for public use or distribution. This material has been prepared for the purpose of providing general information only without taking account of any particular investor's objectives, financial situation or needs and does not amount to an investment recommendation.

The information contained in this material does not constitute financial, investment, legal, accounting, tax or other professional advice or a solicitation for investment in funds managed by Finexis Asset Management, nor does it constitute an offer for sale of interests issued by funds that are managed or advised by Finexis Asset Management. Any offer can only be made by the relevant offering documents, together with the relevant subscription agreement, all of which must be read and understood in their entirety, and only in jurisdictions where such an offer is in compliance with relevant laws and regulatory requirements.

Simulations, past and projected performance may not necessarily be indicative of future results. While there is an opportunity for gain, any investor is at risk of loss of 100% of its investment when investing in funds managed or advised by Finexis Asset Management.

The information on this material is not intended for persons located or resident in jurisdictions where the distribution of such information is restricted or unauthorized. No action has been taken to authorize, register or qualify any of the Finexis Asset Management funds or otherwise permit a public offering of any Finexis Asset Management fund in any jurisdiction, or to permit the distribution of information in relation to any of the Finexis Asset Management fund in any jurisdiction.