Alpesh Patel's Newsletter

Exclusively for ShareScope Alpesh Patel Special Edition Subscribers

26 July 2023

Overview

What's catching my eye? July is usually a great month.

Monthly Returns Heatmap

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	3.33%	0.90%	15.59%	6.58%	7.11%							
2022	-7.53%	-3.72%	3.19%	-9.99%	-1.81%	-5.53%	9.31%	-6.67%	-10.93%	-0.33%	10.22%	-6.00%
2021	4.29%	0.41%	1.46%	6.96%	-0.76%	8.50%	5.17%	6.16%	-6.61%	17.63%	-0.13%	1.73%
2020	7.95%	-4.57%	-2.65%	13.63%	2.54%	11.06%	0.74%	10.28%	-6.74%	-3.74%	6.01%	3.90%
2019	2.82%	7.74%	5.28%	10.73%	-4.95%	8.31%	1.72%	1.50%	0.85%	3.12%	5.95%	4.17%
2018	11.07%	-0.84%	-2.67%	2.47%	6.15%	-0.23%	7.58%	6.30%	1.82%	-6.61%	4.27%	-8.40%
2017	4.04%	-0.44%	2.94%	3.95%	2.60%	-1.30%	5.47%	3.40%	-0.37%	11.67%	1.70%	1.63%
2016	-0.70%	-6.98%	8.55%	-9.70%	7.02%	-3.45%	10.77%	2.01%	0.24%	4.03%	1.25%	3.12%
2015	-13.02%	9.31%	-7.29%	19.64%	-3.03%	-5.78%	5.78%	-6.19%	1.70%	18.93%	3.94%	2.08%
2014	1.15%	2.00%	7.00%	-1.44%	2.05%	1.86%	3.50%	5.92%	2.05%	1.27%	2.47%	-2.84%
2013					6.18%	-1.02%	-7.83%	5.64%	-0.36%	6.39%	8.51%	-1.89%

I write to you from Paris. And I can tell you hedge funds are wrong in their tilt to Europe.

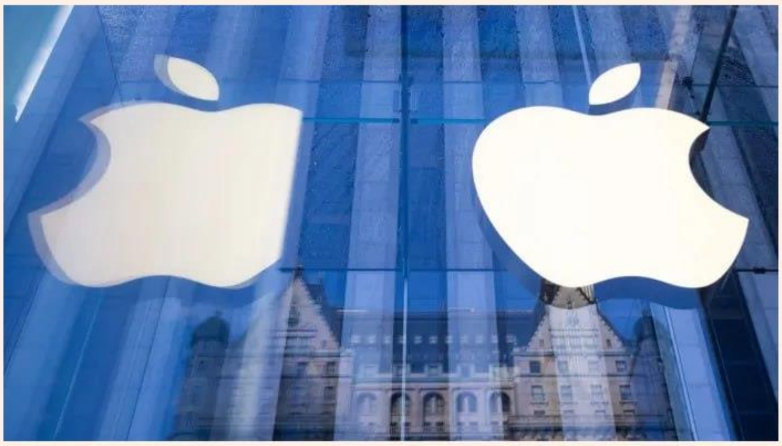
FINANCIAL TIMES

UK COMPANIES TECH MARKETS CLIMATE OPINION WORK & CAREERS LIFE & ARTS HTSI

US equities + Add to myFT

Hedge funds slash bets on US after rally and pivot to Europe

Wall Street exposure at lowest level in more than a decade while Europe raised to highest



Technology stocks such as Apple have driven the sharp rise in US shares this year © Jeenah Moon/Bloomberg

I think everyone except billionaires is underestimating the significance of AI. This is not like the nonsense of NFTs and Web3 or even the pointless metaverse – all tiny niches by comparison.

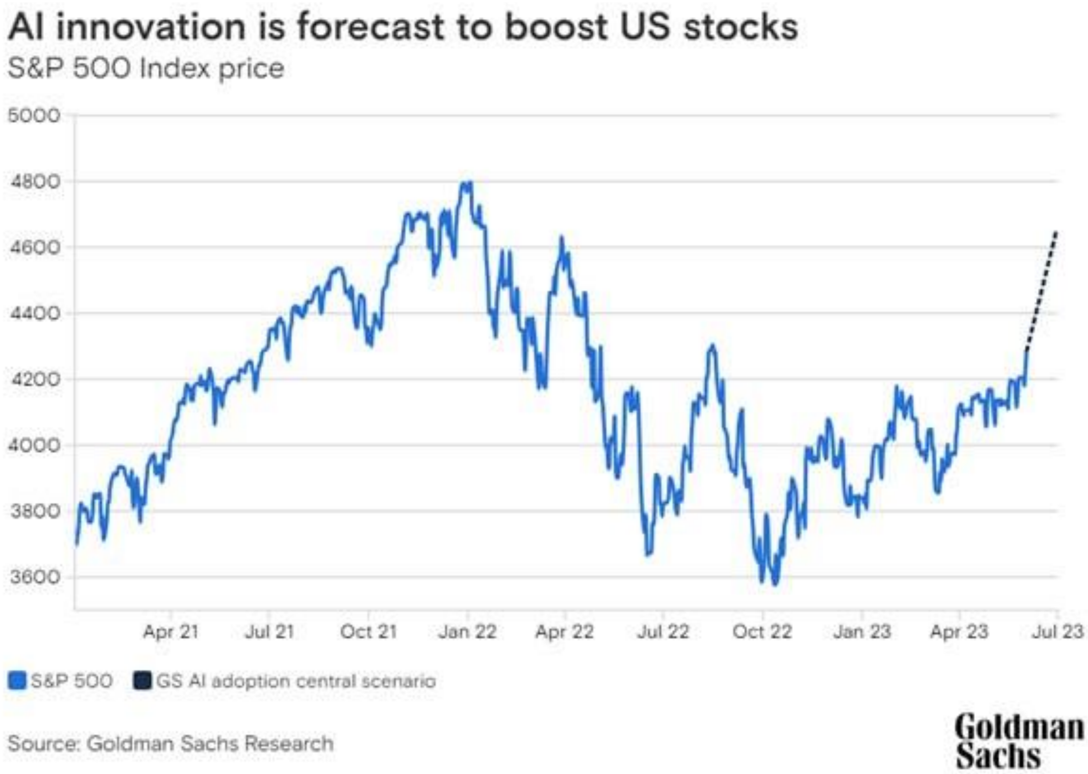
Bloomberg

• Live Now Markets Economics Industries Technology Politics Wealth Pursuits Opinion Businessweek Equality Green

Wealth
Finance

Stan Druckenmiller, David Tepper Lead Family Offices Betting on AI

- Duquesne Family Office boosts stake in Nvidia, adds Microsoft
- Tepper's Appaloosa adds Nvidia and Cathie Wood's ARK


AI innovation is forecast to boost US stocks
S&P 500 Index price
5000
4800
4600
4400
4200
4000
3800
3600
Apr 21
Jul 21
Oct 21
Jan 22
Apr 22
Jul 22
Oct 22
Jan 23
Apr 23
Jul 23
S&P 500
GS AI adoption central scenario
Source: Goldman Sachs Research
Goldman Sachs

The S&P 500 has entered a bull market. Here's what history says will happen next

by Josh Schafer, Josh Schafer
June 10, 2023

The S&P 500 closed up more than 20% from its October lows on Thursday, marking the start of a new bull market.

At 248 trading days, the recent run back to a bull market was the longest bear run for the S&Psince 1948. The resilient rise of the bench-mark index came amid the most aggressive Federal Reserve rate hike campaign in four decades, regional banking turmoiland incessant recession worries that haven't fully material-ized.

Research from Bank of America indicates the S&P 500 rises 92% of the time in the 12 months following the start of a bull market, compared to the historical 75% average over any 12 month period dating back to the 1950s.

I find statistics as in the above image very seductive. But they are not the same as a guarantee and a statistician will tell you that there is a difference between a streak and a probability.

The falls of 2021 are one reason for the size of moves up this year. But it is true on a valuation basis some stocks, like Amazon look expensive. But all they have to do is mention AI and they will look fair value.

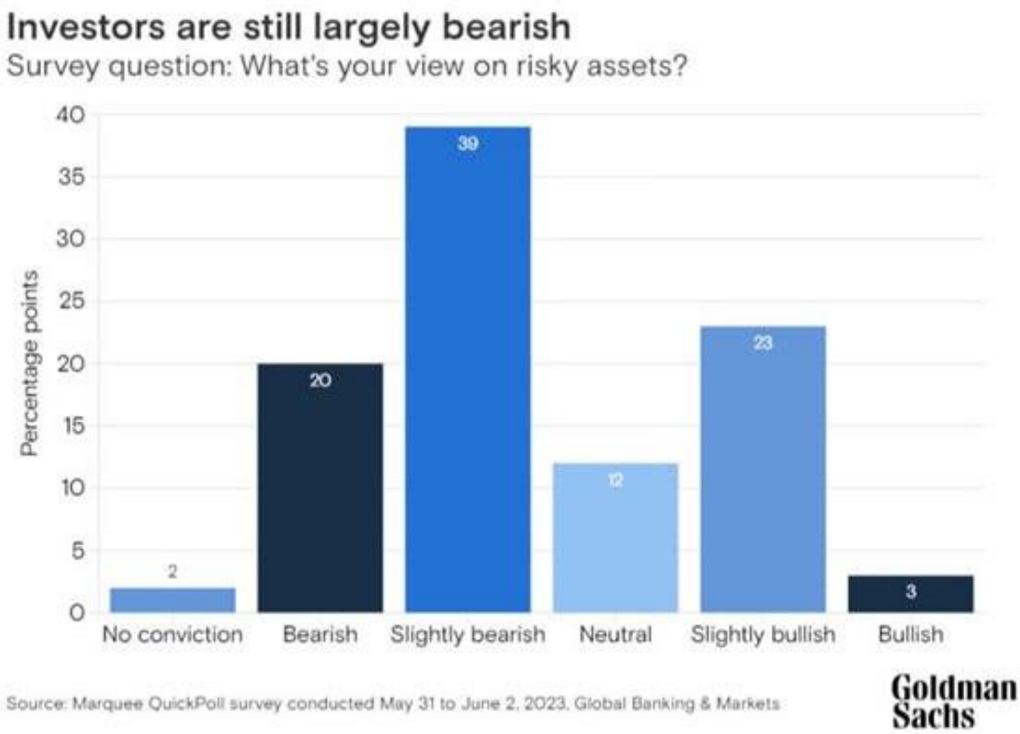
Amazon shares can rally nearly 25% as retail margins improve, Bank of America says

Whilst initially just a few stocks, we've picked and highlighted in these newsletters, have led the market, now it seems many more are joining in. The likes of Adobe, ServiceNow and Costco are my favourites outside the big names I already own.

I love the graph below. What does it mean? Well, I continue being happy with well known Apple for my returns over small unknown companies – unless the latter absolutely look amazing on their financials. At least as good as Apple!

Part of the reason behind the rally is explained in the headline below. Is it justified? Well, it reflects how unnecessarily pessimistic so many were about the Fed.

Whilst people claim to be bearish, their actions, wallets and purchases do not show it as the image from Goldman Sachs shows.



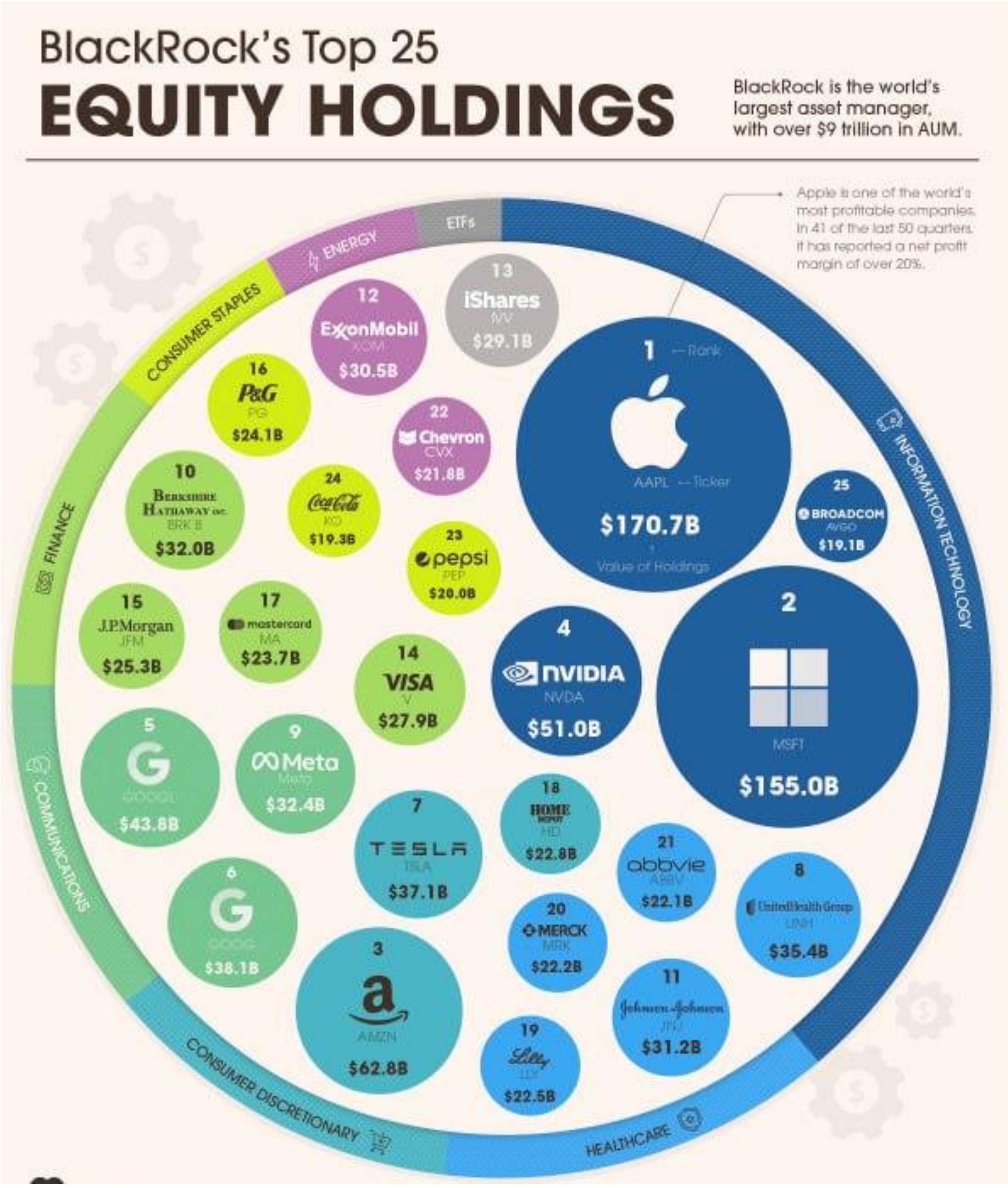
And we have a lot of reason from history to be cautious. Look at what happens to companies when they are overvalued in the image below. Of course, some do keep rising. This is the problem we face with nVidia.

Figure 3. S&P 500 Stocks That Have Reached a 30x Price-to-Sales Ratio since 2015

Company	Category	First Passed 30x P/S	Market Cap When Passed	1 Year Total Return	2 Year Total Return
Incyte	Pharma	14/03/2017	$31bn	-38.89%	-44.15%
Nektar Therapeutics	Pharma	01/05/2017	$17bn	348%	68.60%
Abiomed	Pharma	05/06/2018	$18bn	-33.70%	-38.40%
MarketAxess	Financial	12/07/2019	$13.5bn	50.60%	30.00%
Paycom Software	Software	03/12/2020	$25bn	-2.48%	-20.70%
Enphase Energy	Solar/Batteries/EVs	07/01/2021	$27bn	-32.10%	9.30%
Carnival	Cruise	13/04/2021	$31bn	-29.90%	-64.89%
Royal Caribbean	Cruise	04/05/2021	$21bn	-7.35%	-14.40%
Norwegian Cruise Line	Cruise	11/05/2021	$10bn	-44.30%	-51.00%
Moderna	Pharma	21/07/2021	$129bn	-47.40%	-60.70%
NVIDIA	Semis	03/11/2021	$665bn	-49.47%	46.50%

Source: Man Numeric, Worldscope and Bloomberg; as of 26 May 2023. Securities identified via Worldscope

Whilst I select stocks based on their fundamentals, I do like to look into other people's portfolios. Like this from Blackrock. UnitedHealth and Abbvie are not currently in my portfolio. They provide a break from tech and are flashing attractive on my analysis.



The obvious big ones in my pension, see image below, have been doing enough to make up for 2021 being lacklustre.

Returns

As of Jun 24, 2023, the MATANA Portfolio returned **76.86%** Year-To-Date and **37.75%** of annualized return in the last 10 years.

	1 month	Year-To-Date	6 months	1 year	5 years (annualized)	10 years (annualized)
Benchmark	4.11%	14.04%	14.34%	12.26%	10.05%	9.55%
MATANA Portfolio	8.95%	77.04%	81.40%	43.65%	38.59%	37.72%
Portfolio components:						
MSFT Microsoft Corporation	0.64%	40.35%	42.05%	27.70%	29.24%	27.79%
AAPL Apple Inc.	7.20%	45.16%	45.05%	33.55%	33.64%	29.78%
TSLA Tesla, Inc.	32.84%	108.31%	135.20%	4.77%	61.78%	36.05%
GOOG Alphabet Inc.	-1.92%	38.65%	39.91%	5.49%	17.23%	17.23%
NVDA NVIDIA Corporation	8.39%	188.90%	198.99%	150.42%	48.07%	63.91%
AMZN Amazon.com, Inc.	7.55%	53.79%	55.56%	14.10%	8.74%	24.86%

But to stop people following me getting too complacent I like to show them the image below too.

Worst Drawdowns

The table below shows the maximum drawdowns of the **MATANA Portfolio**. A maximum drawdown is an indicator of risk. It shows a reduction in portfolio value from its maximum due to a series of losing trades.

The maximum drawdown since January 2010 for the **MATANA Portfolio** is **46.26%**, recorded on **Jan 5, 2023**. It took 111 trading sessions for the portfolio to recover.

Depth	Start	To Bottom	Bottom	To Recover	End	Total
-46.26%	Nov 22, 2021	282	Jan 5, 2023	111	Jun 15, 2023	393
-35.3%	Feb 20, 2020	20	Mar 18, 2020	51	Jun 1, 2020	71
-27.94%	Oct 2, 2018	58	Dec 24, 2018	210	Oct 24, 2019	268
-21.66%	Dec 30, 2015	29	Feb 10, 2016	38	Apr 6, 2016	67
-16.78%	Sep 2, 2020	4	Sep 8, 2020	57	Nov 27, 2020	61

For those thinking I am over concentrated in tech and something about eggs and baskets, I say, look at the lack of relative correlation as shown in the image below. This is a reflection that words, industries and sectors are not as relevant as the numbers a company produces.

Asset Correlations Table

The table below shows the correlation coefficients between the assets in the portfolio.

	TSLA	NVDA	AAPL	AMZN	GOOG	MSFT
TSLA	1.00	0.43	0.41	0.41	0.38	0.39
NVDA	0.43	1.00	0.54	0.54	0.54	0.59
AAPL	0.41	0.54	1.00	0.57	0.59	0.63
AMZN	0.41	0.54	0.57	1.00	0.68	0.63
GOOG	0.38	0.54	0.59	0.68	1.00	0.69
MSFT	0.39	0.59	0.63	0.63	0.69	1.00

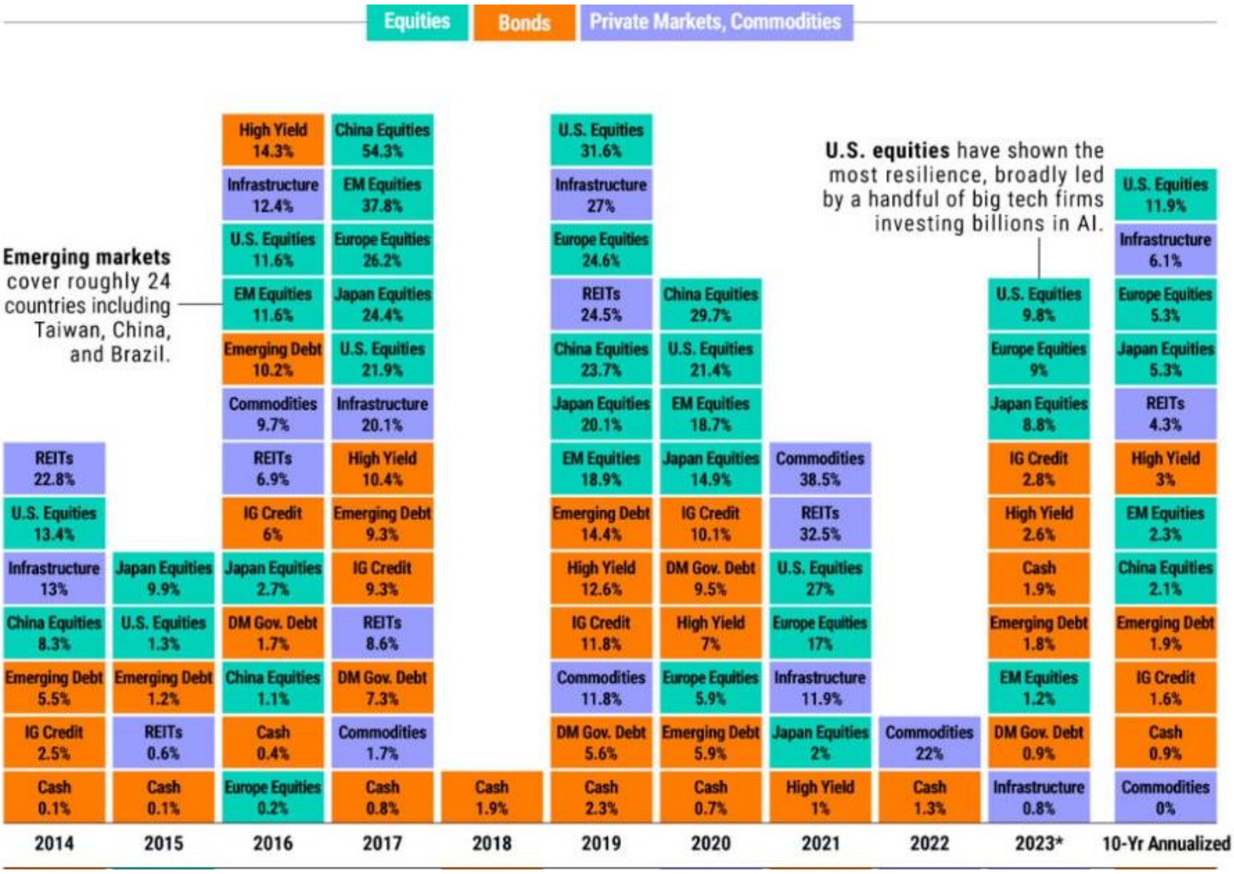
And for those wondering why my pension is in US stocks – the image below is a good illustration.


The UK stock market's relative performance has been dire over the past two decades
Ratio of UK stock market value to GDP, relative to the US (US = 100)
120
100
80
60
40
Q1 2000
Q1 2006
Q1 2010
Q1 2014
Q1 2018
Q1 2024
FINANCIAL TIMES
Source: Refinitiv

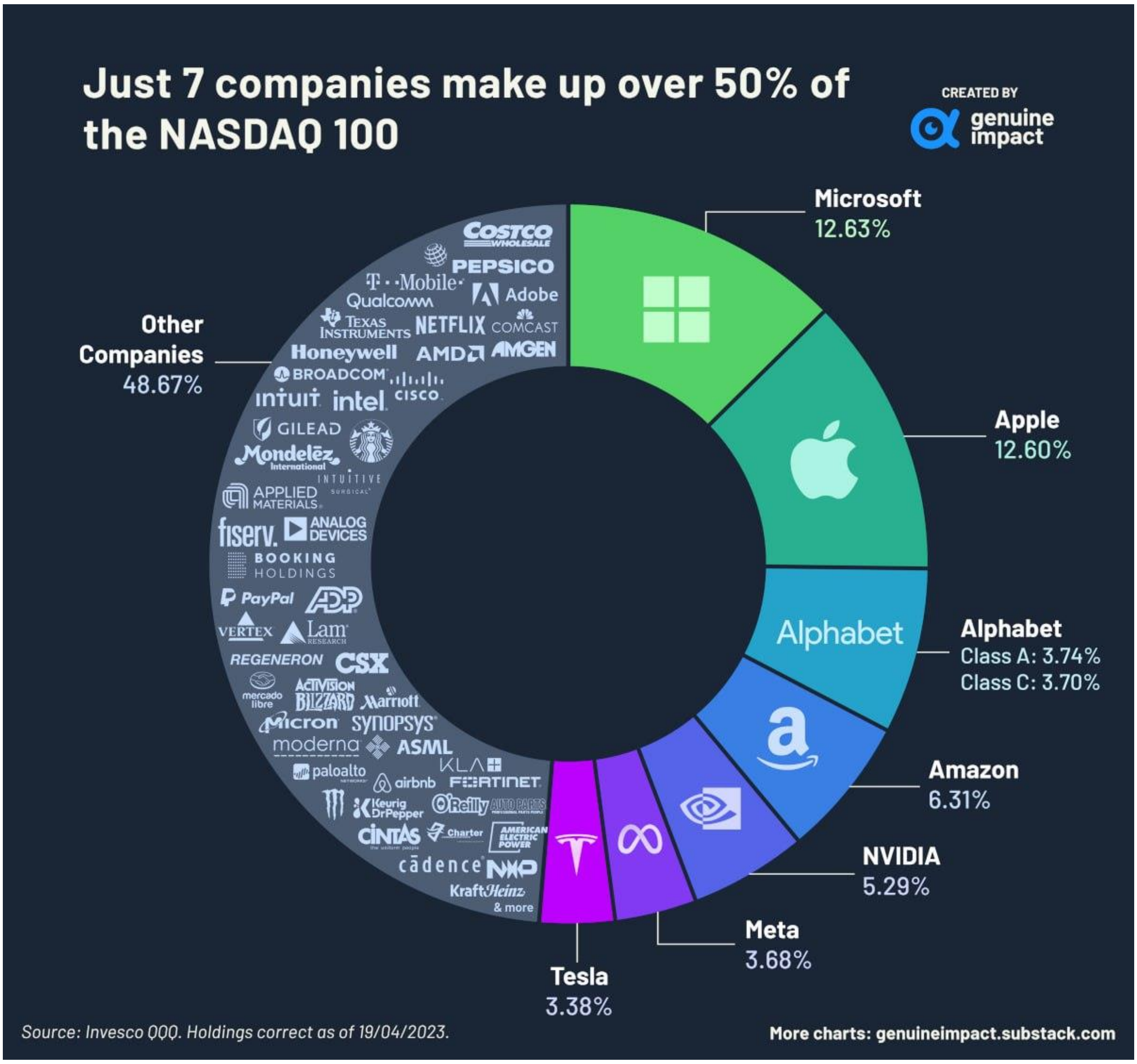
FTSE 100 falls flat as UK misses global stock rally

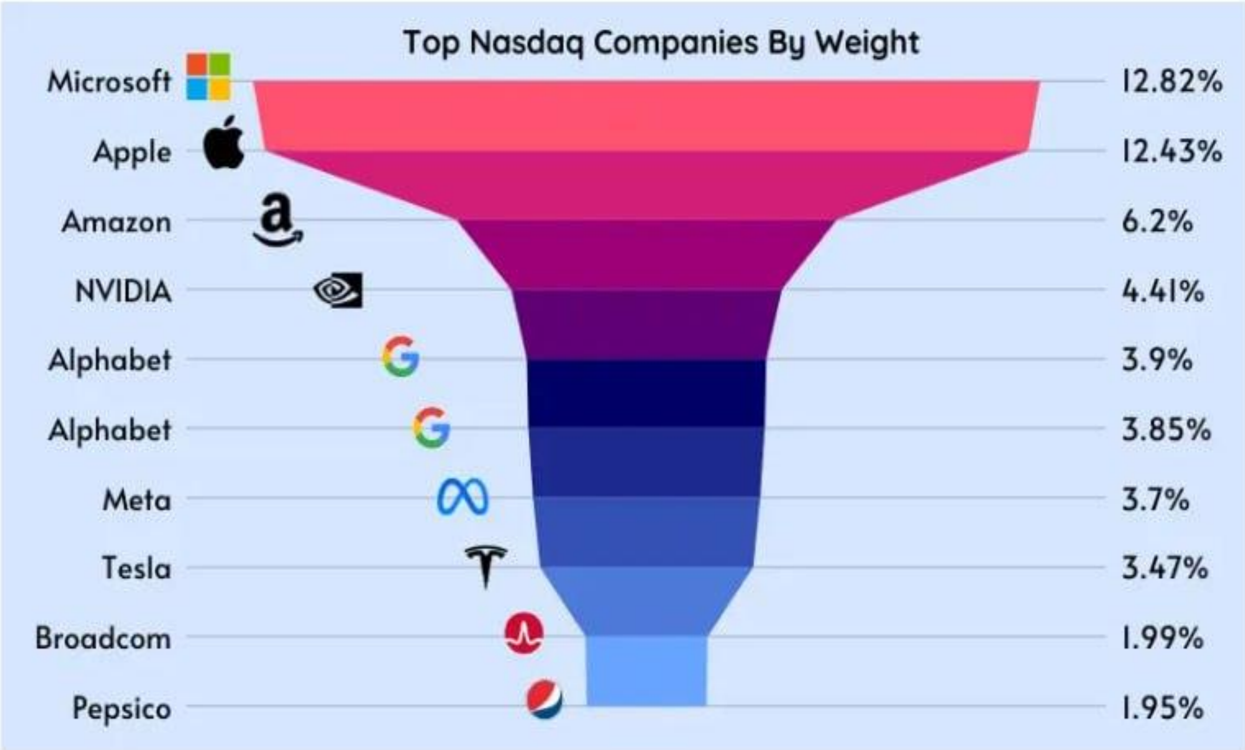
Buoyant sterling and falling oil prices have hurt London's flagship index this year

The FTSE's glut of interest-rate sensitive housebuilders, banks, insurers and utility groups has compounded the market's vulnerability to higher rates © Hollie Adams/Bloomberg


Equities
Bonds
Private Markets, Commodities
Emerging markets cover roughly 24 countries including Taiwan, China, and Brazil.
U.S. equities have shown the most resilience, broadly led by a handful of big tech firms investing billions in AI.
2014
REITs 22.8%
U.S. Equities 13.4%
Infrastructure 13%
China Equities 8.3%
Emerging Debt 5.5%
IG Credit 2.5%
Cash 0.1%
2015
Japan Equities 9.9%
U.S. Equities 1.3%
Emerging Debt 1.2%
REITs 0.6%
Cash 0.1%
2016
High Yield 14.3%
Infrastructure 12.4%
U.S. Equities 11.6%
EM Equities 11.6%
Emerging Debt 10.2%
Commodities 9.7%
REITs 6.9%
IG Credit 6%
Japan Equities 2.7%
DM Gov. Debt 1.7%
China Equities 1.1%
Cash 0.4%
Europe Equities 0.2%
2017
China Equities 54.3%
EM Equities 37.8%
Europe Equities 26.2%
Japan Equities 24.4%
U.S. Equities 21.9%
Infrastructure 20.1%
High Yield 10.4%
Emerging Debt 9.3%
IG Credit 9.3%
REITs 8.6%
DM Gov. Debt 7.3%
Commodities 1.7%
Cash 0.8%
2018
Cash 1.9%
2019
U.S. Equities 31.6%
Infrastructure 27%
Europe Equities 24.6%
REITs 24.5%
China Equities 23.7%
Japan Equities 20.1%
EM Equities 18.9%
Emerging Debt 14.4%
High Yield 12.6%
IG Credit 11.8%
Commodities 11.8%
DM Gov. Debt 5.6%
Cash 2.3%
2020
China Equities 29.7%
U.S. Equities 21.4%
EM Equities 18.7%
Japan Equities 14.9%
IG Credit 10.1%
DM Gov. Debt 9.5%
High Yield 7%
Europe Equities 5.9%
Emerging Debt 5.9%
Cash 0.7%
2021
Commodities 38.5%
REITs 32.5%
U.S. Equities 27%
Europe Equities 17%
Infrastructure 11.9%
Japan Equities 2%
High Yield 1%
2022
Commodities 22%
Cash 1.3%
2023*
U.S. Equities 9.8%
Europe Equities 9%
Japan Equities 8.8%
IG Credit 2.8%
High Yield 2.6%
Cash 1.9%
Emerging Debt 1.8%
EM Equities 1.2%
DM Gov. Debt 0.9%
Infrastructure 0.8%
10-Yr Annualized
U.S. Equities 11.9%
Infrastructure 6.1%
Europe Equities 5.3%
Japan Equities 5.3%
REITs 4.3%
High Yield 3%
EM Equities 2.3%
China Equities 2.1%
Emerging Debt 1.9%
IG Credit 1.6%
Cash 0.9%
Commodities 0%

The rebalancing of Nasdaq should mean the lesser weighted stock rise and the more heavily ones decline. We're not seeing that presently.





So, let's return to the bigger picture and where we started with the S&P 500 bull. It should be a good 12 months ahead, but not necessarily with the same ones we've held in the first 6 months.

S&P 500 cyclical bull markets since 1929

	S&P 500 return one year later
Averages	9.43%
Medians	14.06%
Maximums	83.39%
Minimums	-69.52%

Table: CNBC Pro • Source: Bank of America • Created with Datawrapper

Bank of America

I described at my FT Live event the AI experiment I did by putting in data into ChatGPT4+ and the resultant stocks compared to my own picks. It was an interesting experiment. As well as confirming my own picks, it highlighted one or two I revisited (all are mentioned elsewhere in this newsletter).

FT LIVE

Investors' Chronicle

FUTURE OF PRIVATE INVESTING

Investing for success in the age of macroeconomic change

15 June 2023 | In Person

Leonardo Royal Hotel London City

11:20 - 11:45
(25 min)

FIRESIDE CHAT: Tactics for difficult markets: managing money through macro turbulence

In light of inflation, high interest rates and a struggling economy, external mayhem will continue to exert a heavy influence on stock markets.

- When can we expect inflation to fall back to the target of 2 per cent?
- What strategies can investors use to minimise any cost to their portfolios and maximise the growth potential?

Alpesh Patel, Founder, *Praefinium*
Irene Perdomo, Co-Head of Systematic Strategies, *Ocean Leonid Investments*

Jemma Slingo, Investment Writer, *Investors' Chronicle*


Investors' Chronicle
Investors' Chronicle
FIRESIDE CHAT: Tactics for difficult markets: managing money through macro turbulence
Alpesh Patel, Founder, Praefinium
Irene Perdomo, Co-Head of Systematic Strategies, Ocean Leonid Investments
Moderated by
Jemma Slingo, Investment Writer, Investors' Chronicle
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Money
FUTURE OF PRIVATE INVESTING


Jo
@scarletnyte
Having watched @alpeshbp on BBC News, I felt compelled to follow your account. I found your interview on financial issues interesting and above all understandable to lil ol' me.

That's my job!


BBC NEWS
Fed chief warns rate rises not over
bbc.co.uk/news
05:33

I already held Tesla before this announcement.

Modi in US: Elon Musk says Tesla to come to India 'as soon as possible'

5 hours ago

Elon Musk described his talks with Narendra Modi as excellent

Beyond the Bitcoin Boom: A Trader's Guide to Steady Navigation Through Fads and Frenzy

The world of trading is often lit by the dazzling allure of the next big thing. Few phenomena have shone brighter in recent years than the meteoric rise of Bitcoin, a beacon in the digital cosmos that has captured the imagination and greed of many a trader.

This glittering asteroid, however, provides a perfect backdrop for a timeless lesson: the importance of steady navigation and measured judgment amidst the ever-shifting landscape of fads and frenzy.

Consider Bitcoin not merely a cryptocurrency but a symbol - a lighthouse in a sea of digital marvels, a siren's song enticing the trader to rush headlong into the rocks of greed.

This is not to discount its potential or influence but to underscore the necessity of a discerning perspective amidst the roar of the market's ever-changing tides.

At its core, trading is an art of balanced judgement and strategic patience. It's about discerning the solid ground of enduring value amidst the sand dunes of fleeting fads. Bitcoin, or any other exciting new opportunity, can offer considerable rewards, but it's crucial not to be seduced by the allure of quick riches or swayed by the popular waves. Trading this asset should be done in the same way as any other. Nothing special. Nothing different.

Navigating this requires a compass of inner balance, a tether to prevent us from being swept away in the winds of greed or blind trend-following. It's about grounding our decisions in diligent research, realistic expectations, and a measured understanding of our risk tolerance. After all, even the most enticing beacon may lead to treacherous waters if followed without caution.

In the end, remember this: the realm of trading is often ablaze with the fireworks of the latest trend, the newest innovation. Let these spectacles illuminate your path, not blind your vision. Learn to appreciate the beauty of these flashes of brilliance like Bitcoin, but remain firmly grounded in your journey. Let your decisions be shaped not by the ebb and flow of market fads but by the timeless principles of balance, diligence, and strategic patience.

My strategy - the same as for trading oil futures or indices - 1. time frame - 15m to 1w 2. Trend and momentum 3. Multiple indicators showing momentum, e.g., higher lows, higher highs, and multi-period highs plus price closing intra-period near its highs. 4. volatility-based position size and stop loss 5. never add to a loser 6. Add to the winner with profits made 7. stepped trailing stop loss. 8. multi-period confirmations of aforementioned highs

See www.trading-champions.com

Beyond Financial Portfolios: The Power of Investing in Experiences

As the shimmering waters of Lake Como danced in the summer sun, my wife and I found ourselves captivated by the timeless elegance of this Italian paradise. The sweet aroma of blooming geraniums filled the air, and the laughter of locals echoed through the narrow, cobbled streets. This idyllic moment made me reflect on my journey, personally and as an investment guru.

An analogy came to mind as I watched a boat gently cutting through the sparkling lake. This tranquil scene reminded me of a fundamental truth in the world of investing: it requires patience and an appreciation for the journey. The boat's voyage across the lake was not hurried but slow and deliberate, much like a wise investment strategy.

The captain didn't rush, knowing that the beauty of the journey was just as important as the destination. In investing, too, rushing can often lead to mistakes, while patience and a long-term perspective can yield significant rewards.

But another parallel struck me as we basked in the Mediterranean sun. We often talk about investing our money— in stocks, bonds, and real estate. But what about investing in experiences?

This trip to Lake Como was not just an escape from the daily grind. It was an investment. An investment of time, sure, but also an investment in our happiness, relationship, and personal growth.

Investing in experiences might not provide the financial return we see on a spreadsheet, but the returns are real nonetheless. They show up in our improved mental health, our relationships' strength, and our worldviews' broadening. These are the returns that, while not easily quantifiable, are invaluable.

So, as an investment guru, what's my advice?

Firstly, don't underestimate the power of patience. Whether you're steering a boat across a tranquil lake or waiting for your portfolio to grow, remember that good things take time.

Secondly, diversify your investments not just in your financial portfolio but in your life. Invest in experiences. Travel, learn a new skill, and spend time with loved ones. The returns might take time to be evident, but you'll see their value in the richness they add to your life over time.

Lastly, balance is key. It's important to be savvy with your financial investments, but never at the cost of missing out on investing in experiences that enrich your life.

As we packed our bags to leave the tranquil beauty of Lake Como, I looked back one last time at the serene waters. The reflection of the setting sun on the lake served as a beautiful reminder of the investments we had made, not just in our financial portfolios, but in our lives, our experiences, and ultimately, in ourselves.

I invite you to reflect on your investments. Are you investing just in your financial future, or are you also investing in experiences? Share your thoughts and stories below and check out www.campaignforamillion.com

My Journey as a Trader and Investor: Tracing the Roots of Success from Oxford to Wall Street

The Oxford effect isn't just a theory or an obscure notion to me; it's a lived experience. Oxford isn't just a place that expects; it's a place that instills, inculcates, and nurtures.

It's a place that hones raw potential into honed intellect and ambition into measured success. It's the foundation where I learned the art of critical thinking in scary one-to-one tutorials with tutors such as David Butler, complex problem-solving, and the ability to assimilate and evaluate diverse streams of information swiftly – skills that are incredibly essential in the world of trading and investing.

When I became a Visiting Fellow, all of this was multiplied.
When I transitioned into the world of trading and investing, the parallels were apparent. The labyrinthine streets of Oxford were replaced with the complex web of the financial markets. The stacks of books and research papers turned into the fluctuating trends and patterns of economic data. The robust classroom discussions found echoes in the negotiation rooms with investors.

The intellectual rigour that Oxford demanded of me became my armour in the often unforgiving world of trading on Wall Street. Just like at Oxford, I found myself continually learning and adapting. In the financial world, similar to the academic world, there are always new theories to understand, new strategies to deploy, and new challenges to overcome.

When in 2005, I held the first hedge fund board meeting off Wall St at our prime brokers, following a meeting with the traders at the NYSE who would be executing our trades, I knew the confidence of the Oxford effect was core to getting here. I did not fit in many other ways. Chutzpah, as they say in the Big Apple.

So, as I look at this picture this week back in Oxford, I see the beginning of a journey that led me to where I am today - trader and investor. It all ties back to those formative years, under the spires of the Oxford skyline, where I learned that the only constant is change and that continuous learning and adaptability are the key drivers of success.

Ang San Suu Kyi put it well, "Oxford Expects." One cannot feel humbled at best and a total failure at worst.

Perhaps this is the Oxford Effect at its core: a relentless pursuit of knowledge, adaptability, and resilience that not only prepares us for academia but also for the broader canvas of life, whether that's on Wall Street or any other endeavor we choose to pursue. And it's something I carry with me every day, in every transaction, in every decision, and in every success.

(Post script: I was in Oxford with dozens of Pakistani students this past week, judging their business plans to make their country better. I will write about that separately. I am Indian, by the way - a fascinating read. My work as a Visiting Fellow was published in my book by Macmillan 'Investing Unplugged').

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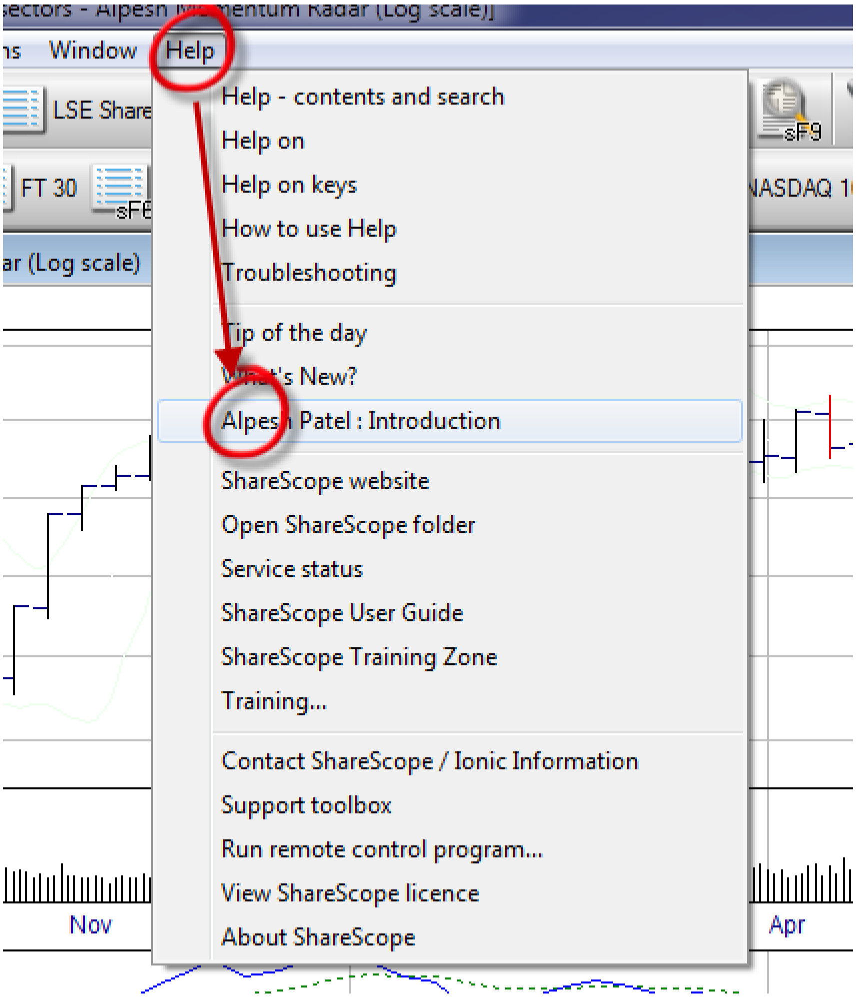
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Help on keys
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Troubleshooting
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