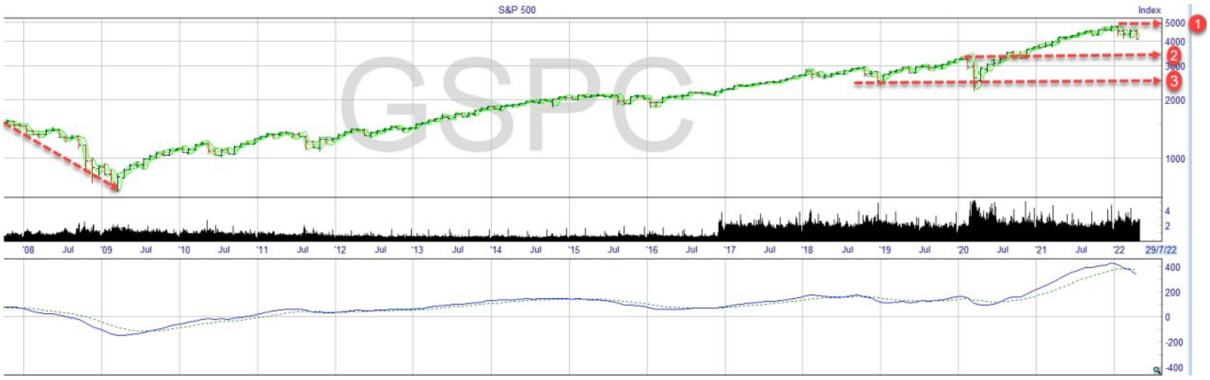
Alpesh Patel's Newsletter

Exclusively for ShareScope Alpesh Patel Special Edition Subscribers

09 June 2022

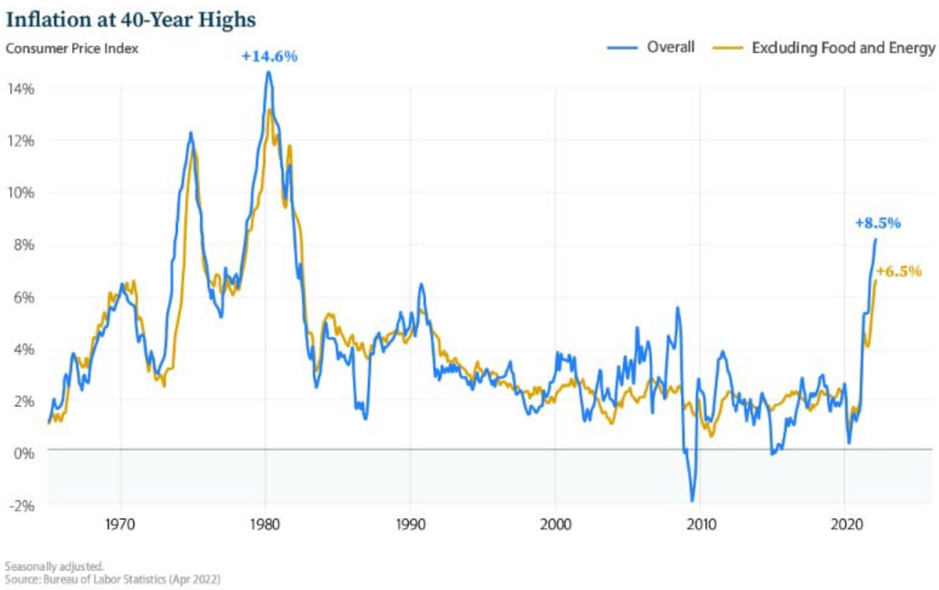
Overview

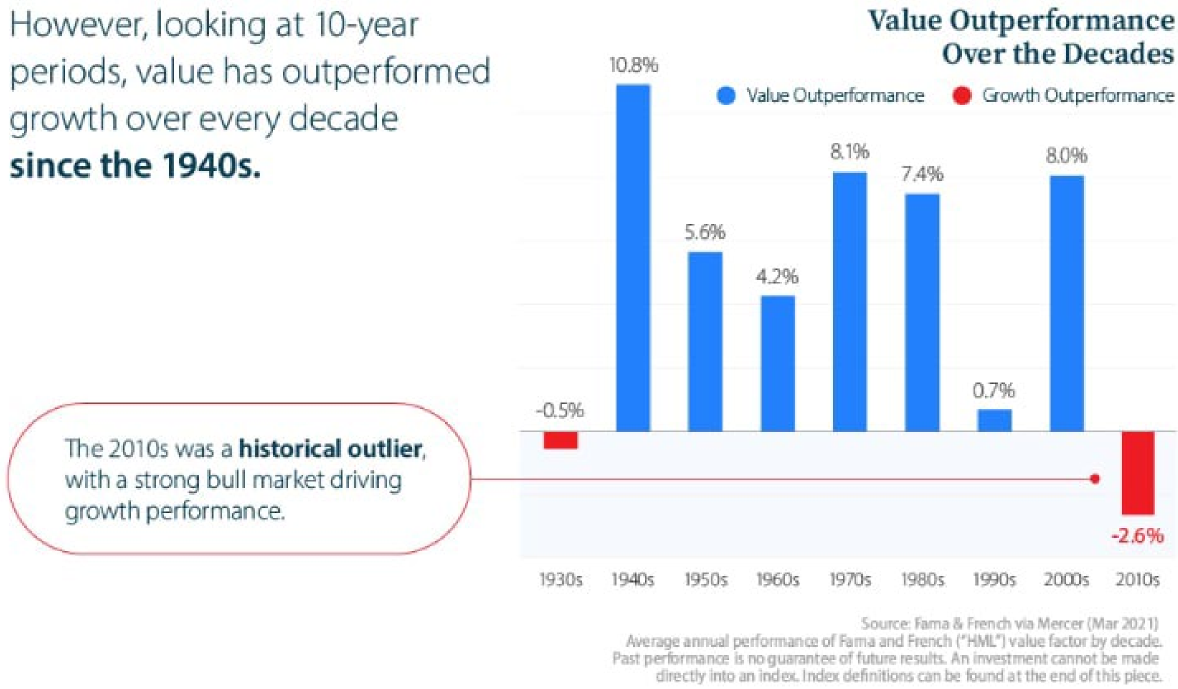


In 12 months; 1=10% 2=60% 3=20% [doesn't need to add up to 100% because of other possibilities]

I would rather wait to deploy cash in this market and not be down 10%-20% than dive in. In other words, my risk appetite changes according to direction too. If the market tanks, then I will be more risk loving ie willing to pick bargains.

The upside of a falling market at the great deals that will come about and I will keep an eye out and report those here.





Tactically I am more focussed on PEG/P/E ie value than growth and of course cash flow presently. But again, in light of expected falls, the issue is one of waiting too for clear bargains.

S&P 500: Worst Performance through 82 Trading Days (1928 - 2022)

Rank	Year	Price Return: First 82 Trading Days	Price Return: Day 83 to Year-End	Price Return: Full Year
1	1932	-28.2%	18.7%	-14.8%
2	1939	-17.4%	14.7%	-5.2%
3	2022	-13.3%	?	?
4	1942	-11.9%	27.5%	12.4%
5	1970	-11.1%	12.6%	0.0%

Looking at Merck for possible purchase. Will keep you updated.

Also, Altria; Bristol Myers Squibb; Huntington Ingalls; Ross Stores. Will update if we make an investment case.

Do not be tempted to bottom fish or get in early on these market falls.

A day after notching its biggest rally in two years, the S&P saw more than 95% of its companies fall. The Nasdaq 100 suffered one of its sharpest U-turns ever, plunging about 5%.

Name
Antero Resources Corp
Thales SA
Coterra Energy Inc
Westlake Chemical Corp
Black Stone Minerals LP
Rottneros AB
McKesson Corp
ABM Industries Inc
Bristol Myers Squibb Co
Austevoll Seafood ASA
Enterprise Products Partners LP
Altria Group Inc
Sanofi
Vivo Energy PLC
Origin Enterprises PLC
Ienergizer Ltd
Property Franchise Group (The) PLC

Special Situation: ***High Risk Given Market Falls Likely*** These companies are up each month so far this year, ie up Jan, then up again in Feb, then March and in April too. They also have Value Growth Income 7 or more and CROCI in my parameters and also PEG (tactically important in high inflation to have undervalued companies) <1. Of these additionally on discount cash flow showing undervaluation: Ienergizer; Thales; Westlake Chemical Corp; Bristol-Myers; Austevoll; Sanofi

Table 1: Bear markets are quicker than bull markets
History of US equity bear markets (S&P 500)

Peak	Trough	Decline	Recovery	Event (s)
09/1929	06/1932	86.2%	03/1937	Crash of 1929, 1st part of Great Depression
03/1937	04/1942	60.0%	05/1946	2nd part of Great Depression, WWII
10/2007	03/2009	56.8%	02/2020	Global Financial Crisis
06/1911	12/1920	51.0%	12/1924	WWI, Post-War Auto Bubble Burst
03/2000	10/2002	49.1%	10/2007	Dot-com bubble burst
01/1973	10/1974	48.2%	08/1987	Inflationary Bear Market, Vietnam, Watergate
11/1968	05/1970	36.1%	01/1973	Start of Inflationary Bear Market
01/1906	10/1907	34.2%	08/1908	Panic of 1907
02/2020	03/2020	33.9%	03/2020	COVID-19 Crash of 2020
08/1987	10/1987	33.2%	07/1990	Black Monday
4/1899	06/1900	30.4%	03/1901	Cornering of Northern Pacific Stock
05/1946	06/1949	29.6%	08/1956	Post-war Bear Market
12/1961	06/1962	28.0%	02/1966	Height of Cold War, Cuban Missile Crisis
10/1892	07/1893	27.3%	03/1894	Silver Agitation
11/1886	03/1888	22.0%	05/1889	Depression, Railroad strikes
04/1903	09/1903	21.7%	11/1904	Rich Man's Panic
8/1897	03/1898	21.1%	08/1898	Outbreak of Boer War
09/1909	07/1910	20.6%	02/1911	Enforcement of the Sherman Anti-Trust Act
5/1890	07/1891	20.1%	02/1892	Barings Brothers Crisis

Source: BofA Global Investment Strategy, Ibbotson, SBBI Yearbook, Bloomberg
BofA GLOBAL RESEARCH

BOFA GLOBAL RESEARCH

Cyclically adjusted price-earnings ratio since 1881

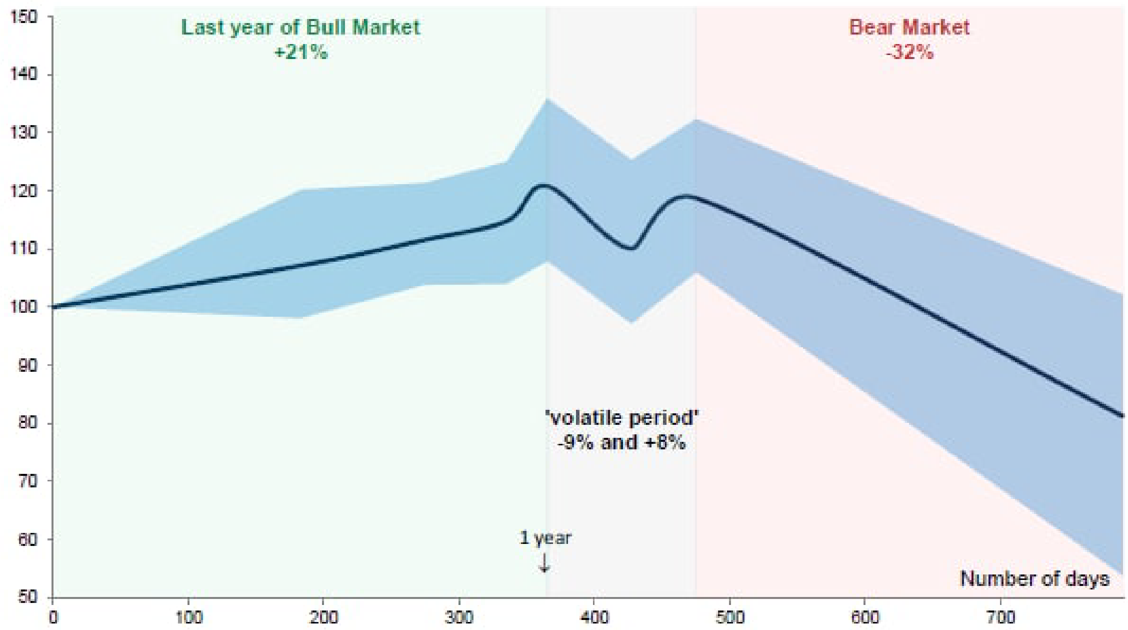
Source: Robert Shiller
© FT

	LIKELIHOOD	OBJECTIVES	NEXT STEPS
SLOW RECOVERY	35%	Be Selective, Cautious	Hold more cash; be picky; some special situations picks
MEDIUM RECOVERY	15%	MODEST INVESTMENT	Hold more cash; be picky; some special situations
FAST RECOVERY	10%	RAPID INVESTMENT	Pick from Approved Filtered List
MIXED RECOVERY	40%	FLEXIBLE AND AGILE DELIVERY	Hold more cash; be selective and picky; some special situations

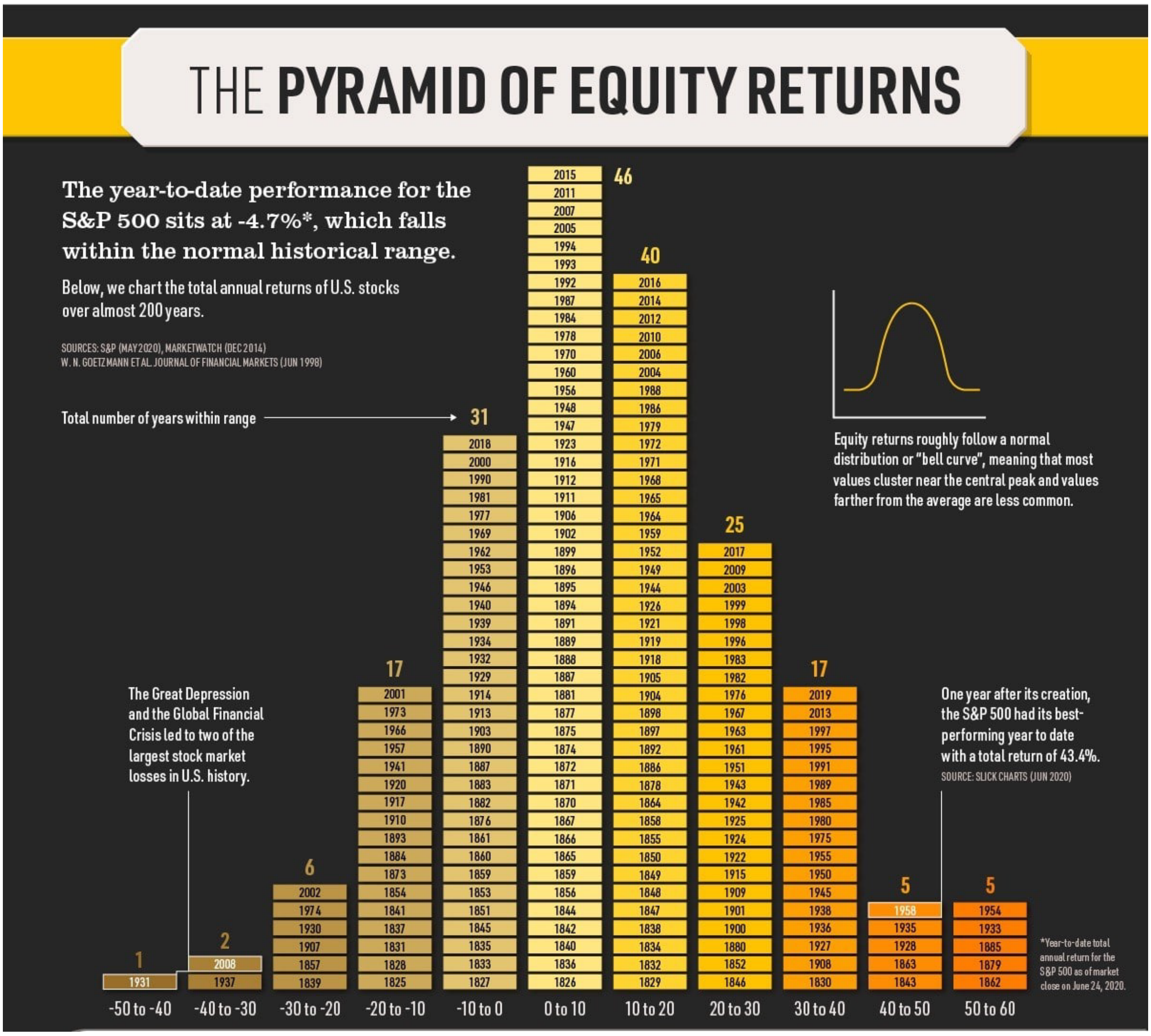
Special Situation: Risk High Because Falling Markets. Coterra Energy to rise 25% in a year.

Special Situation. Activision Blizzard is being taken over at an offer of $95 from Microsoft. The shares are trading at $75. If the deal goes through then you'd make $20 per $75 share you bought ie 25% aprox. Risk high. Deal may not go through.

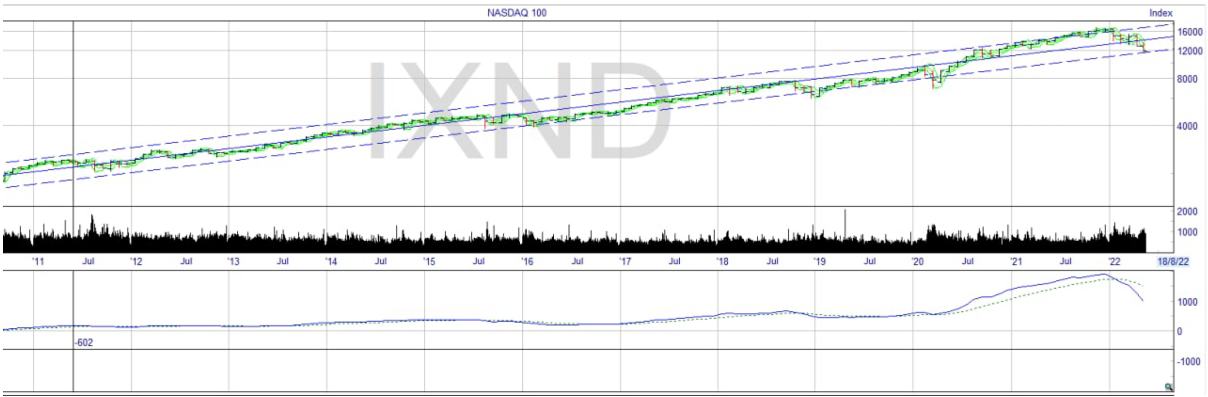
Exhibit 5: The 'typical' profile of the 'Bear Market Bounce'
Average returns and length of the S&P one year before and during a bear market (ex 1998)



Source: Bloomberg, Goldman Sachs Global Investment Research



Momentum sharply down. Do not be fooled into buying too soon. I still have not deployed cash since Jan other than the energy stocks I mentioned.



Nasdaq at 2std deviation below mean. Wait and watch. Don't deploy cash too soon.

I still hold Eli Lilly btw.

Costco and Danaher are exited due to falling 25% from their peak since purchased leaving gains of 10% and 26%

Based on Daily Close, As of 24 May 2022 Close

Worst Starts Since 1927 (As of 5/24)

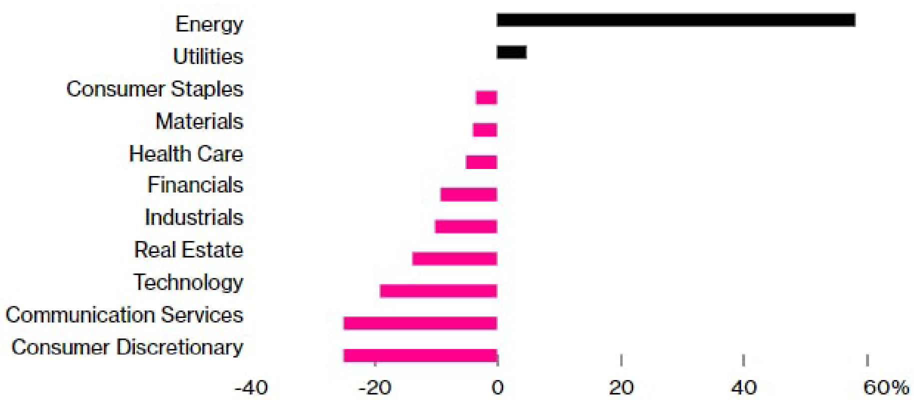
#	Year	Events	YTD	5/20 to YE
1	1932	Great Depression	-35.8%	32.8%
2	1940	World War II	-26.5%	15.5%
3	1970	Vietnam War/Tightening	-21.5%	27.5%
4	2022	Current	-17.3%	?
5	1962	Kennedy Slide	-15.3%	4.1%
6	1939	World War II	-13.0%	9.0%
7	1941	World War II	-10.8%	-7.9%
8	1973	Oil Shock	-9.2%	-9.0%
9	1974	OPEC Embargo/Stagflation	-9.2%	-22.6%
10	1931	Great Depression	-9.1%	-41.8%

Average Stock Drawdown in 12M		S&P 500	Russell 1000	Russell 2000	Russell 3000	R1000 Growth	Nasdaq 100	Nasdaq Comp	AVERAGE
Pandemic Recession	23-Mar-20	-47%	-50%	-58%	-55%	-46%	-39%	-58%	-50%
GFC Recession	9-Mar-09	-59%	-61%	-66%	-64%	-59%	-52%	-66%	-61%
TMT Recession	9-Oct-02	-42%	-40%	-47%	-44%	-43%	-61%	-52%	-47%
Oil Shock/Credit Crunch	11-Oct-90	-37%	-	-	-	-	-	-	-37%
AVERAGE over Recessions		**-46%**	**-50%**	**-57%**	**-55%**	**-49%**	**-51%**	**-59%**	**-52.3%**
Trade War, Financial Tightening	24-Dec-18	-29%	-31%	-41%	-38%	-32%	-31%	-46%	-36%
Euro Debt Crisis II	3-Oct-11	-29%	-32%	-41%	-38%	-32%	-29%	-43%	-35%
Euro Debt Crisis I	2-Jul-10	-22%	-23%	-29%	-27%	-23%	-23%	-33%	-26%
AVERAGE over Non-Recession Sell-Offs		**-27%**	**-29%**	**-37%**	**-34%**	**-29%**	**-28%**	**-41%**	**-32.1%**
Current Trough	24-May-22	**-26%**	**-32%**	**-47%**	**-42%**	**-39%**	**-36%**	**-51%**	**-38.8%**

Source: J.P. Morgan Equity Macro Research

Energized

S&P 500 energy stocks have surged ahead of other sectors in 2022



Source: Bloomberg
Footnote: Percent change of S&P 500 stocks year-to-date by sector

S&P 500 Index returns from 100th trading day until end of year

Year	YTD Return on 100th Trading Day	Return Rest of Year
1932	-38.1%	37.6%
1939	-12.9%	8.8%
1940	-26.2%	15.0%
1962	-14.6%	3.3%
1970	-23.7%	31.0%
2022	-16.5%	?
Average	-	**19.1%**
Median	-	**15.0%**
% Positive	-	**100.0%**

Source: LPL Research
Footnote: Data is through the 100th trading day of the year in 2022 on May 25

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Executives 'buy the dip' at rate not seen since start of pandemic

Stock purchases by company insiders are encouraging sign for markets, say some analysts

Meanwhile - Jeremy Grantham and Michael Burry say 50% more drops. Keep watching my weekly update videos.

MRO*
Marathon Oil Corp Com Stk USD 1

HAL*
Halliburton Comm Stk US$

OXY*
Occidental Petroleum Corp Common Stock USD 0.20

DVN*
Devon Energy Corp USD

CTRA*
Coterra Energy Inc USD0.10 A

MPC*
Marathon Petroleum Corp USD0.01

VLO*
Valero Energy USD (CDI)

MOS*
Mosaic Co (The) USD0.01

Most if not all were special situations. ISA presently. All up.

Which Stocks Have Actually Risen This Year, and Still Look Attractive?

Let's work on an interesting hypothesis from the start of 2022 until the beginning of May. The major indices in the world have fallen.

The FTSE all-world index is down 18% during that period, and the S&P 500 is down 13%.

The German index is down pretty much the same as is the Chinese at around 12 to 13%. The Dow Jones Industrial Average is only down about 10%. It only has 30 companies in it. So interestingly, the index with more companies, the S&P 500, is down 14%.

Whereas the Dow, with just 30 stocks, is down only about 10%.

So what I did is I took all 10,000 companies listed in the United Kingdom, the United States, and overseas companies listed in the United States as well.
That's 10,000 companies. Now, top of the pile company, you might not have heard of spurious ones like rent and guarantor Holdings PLC.

I've never heard of them. Lord knows what made them move up so much. So we'll just put some of the odder ones out of the way.

How might we judge performances and decide whether or not these companies are worth buying now? While we might look at their cash flow, my favorite indicator is cash return on capital invested.

I want that to be as high a number as possible. How good are they at converting cash from capital? We might look at value, growth income, and valuation that's profits relative to share price, revenue, growth, dividend deals, etc.

We might look at price, earnings, growth ratio, and other valuation measures. So which names have come up here?

I'll run through; I won't go through every stock, obviously, because out of the 10,000, the ones that are up so far this year are how many do you think?

Well, it's 2,600, so 26% are up this year, 26% and one in four are up. It was not too bad.

Of these ones, which look like they have momentum (based on the monthly price chart MACD) and acceptable value, growth, income, and cash flow. Now, this does not mean the risk is mitigated, or they are bound to go up. But this was my short-list:

Name	Price% between 3/1/22 and 29/4/22
Coterra Energy Inc	47
Hapag-Lloyd AG	32.5
Fagron	18.6
London Stock Exchange Group PLC	14.2
Walmart Inc	5.8

Stocks That Did Well Last Time The Markets Fell

There's a lot of talk about the market falling substantially. Some people, such as Jeremy Grantham, said that the S&P could fall 50% from its peak.

Let's test a hypothesis between the 1st of October, 2007, and the 1st of March, 2009, also known as the financial crisis, the S&P 500 fell over 50%.

The German Dax also fell 50%, for instance, the Indian stock market. This is to say that those falls were coincidentally all 50%, although those countries are quite different from each other and their listings are very different from each other.

The NASDAQ fell nearly 50%. It was about 47% down. And the FTSE 100 fell 41%, barely any solace.

The Chinese 50 index fell 57%. If you thought there would be some geography you could hide in during those falling markets, you would be mistaken, which begs the next question.

Well, actually, why don't we test? Let's start with the S&P 500 of the 500 companies on that today. Did any of those companies actually rise in that period?

The only ones which are still in the S&P500 and which were up – well, there are 12 companies.

Netflix. I'm not sure many people will want to get into Netflix right now, but Netflix was up 70% during the paradigm mentioned from 2007 to 2009 AutoZone, Illumina, Advance Auto Parts, and Ross Stores.

In a recession, you could argue that people not having much money meant Ross Stores would do well. Edwards Life Sciences, Walmart, again, consumer company, where you'd expect people on a budget to go to. Gilead Sciences, MasterCard, Church & Dwight, O'Reilly Automotive, and Tyler Technologies.

You can see there were three automotive companies. Again, let's look at if these companies have something about them which is peculiar to them doing well.

Well, it doesn't matter how they did back then. To some extent, let's have a look. If they have good fundamentals right now, based on my value, growth income algorithm, the following have a seven, eight, or nine.

They are AutoZone and MasterCard. You might say, well, you're too stringent. Tell me about some sixes. Okay. Advance Auto Parts and Ross Stores.

Walmart is a six. So is Gilead Life Sciences. So is Church and Dwight Company. I'm not going to go below six because I tend not to.

What about then a measure of valuation? Just add an extra column on there.

And also maybe give us some extra information about their cash flows. For instance, something that you particularly think will be important.

Let's do that. Let's add those two numbers and see what happens to the companies I mentioned. Do any of them have a price-earnings growth ratio below one?

Well, yes. Advance Auto Parts does currently, and so does Walmart. So Gilead Sciences and Tyler Technologies are pretty much at one.

What about cash return on capital invested? CROCI. Anything impressive? Remember, I look at this metric because I'm looking for companies that are in the top quarter by cash return on capital invested and the amount of cash they generate. After all, they tend to be the ones that can often outperform over the long term.

AutoZone has a 36% cash return on capital invested; Advance Auto Parts is 11%. Ross Stores is 12% Edwards Life Sciences, 20%, and Giliad is 18.

Conclusion
Now many companies survived the market falls of 2007-2009. If that happens again, we will have to be mindful of what happened, be picky in our stocks, sometimes be willing to hold cash, and other times hold through the falls too.

Is a Stock Market Crash Coming?

The stock market has declined by more than 12% since 2022 began. Fears over inflation, interest rate hikes, re-emergence of COVID in China, and persistent supply chain problems have investors worried.

So, is a stock market crash coming? Let's look at the evidence.

Is a Market Crash Around the Corner?

The stock market has posted its worst quarter since 2020's pandemic crash. P/E ratios are at 25 or above for a year — something we haven't seen since the 2008 financial crisis or the dot-com bubble. Recently, Medical, Coal, Steel, and Mining stocks have taken a tumble, causing widespread concern among investors.

Three significant issues are at play here:

Supply Chain Issues

Supply chain problems have been driving inflation and harming productivity. With Shanghai and Beijing experiencing COVID outbreaks, manufacturing will take a hit. As a result, goods and services will become in short supply globally.

Interest Rate Hikes & Inflation

The Fed has committed to a program of interest rate hikes to curb inflation. Many investors are worried this could herald a recession. However, data on previous interest rate hikes don't support this position. In fact, only one of the last five interest rate hikes had a negative bearing on the market.

The Invasion of Ukraine

Russia's invasion of Ukraine could cause short-term market volatility. As the West imposes sanctions on Russian oil and gas, prices will rise. What's more, food shortages could also contribute to the existing cost of living crisis. Any European market slowdown could be contagious: several big US companies do plenty of business in Europe, and decreased revenues could hit stock prices.

Why are the Experts Saying?

Goldman Sachs has told investors that they see one of two scenarios. Either 2022 will close out at around 4,700 (a 4% rise) — or at 3,600 (down 21%). Their experts highlight a yield inversion and high inflation as the cause of a possible market slide.
Bank of America put it bluntly when they suggest that "Inflation causes recessions." A recent note from the bank says that inflation is "out of control" and that it will eventually lead to a recession that will drive the S&P 500 under 4,000 by the end of the year.

Other experts are more worried. David Hunter at Contrarian Macro Advisors believes that bond yields will drop, causing the markets to rise by 40 to 50%. However, he forecasts an 80% drop soon after.

Michael Berry — who famously called the 2008 credit crunch — has been suggesting we are in the most significant speculative market of all time since June last year. He quit Twitter recently, warning investors that a terrible crash was on the way.

Market veteran John Maudlin is also in a bearish mood. He believes the Fed won't be able to engineer a soft landing with rate cuts. Maudlin points to slowdowns in housing, transport, and manufacturing as evidence that a recession and market drop are coming.

Finally, Kimble Charting Solutions analysts believe that if the Dow Jones drops below 33,000, it could trigger a mass sell off and a significant market plunge.

What to do if there is a market crash?
It's hard to say for sure if the market will crash. However, you can take a leaf out of Warren Buffet's book and load up on the drip if it does. Otherwise, stay calm and don't engage in panic selling. The data is resoundingly clear on why panic selling is a sub-optimal strategy.

The average stock market return is 8% annually. A crash won't last forever.

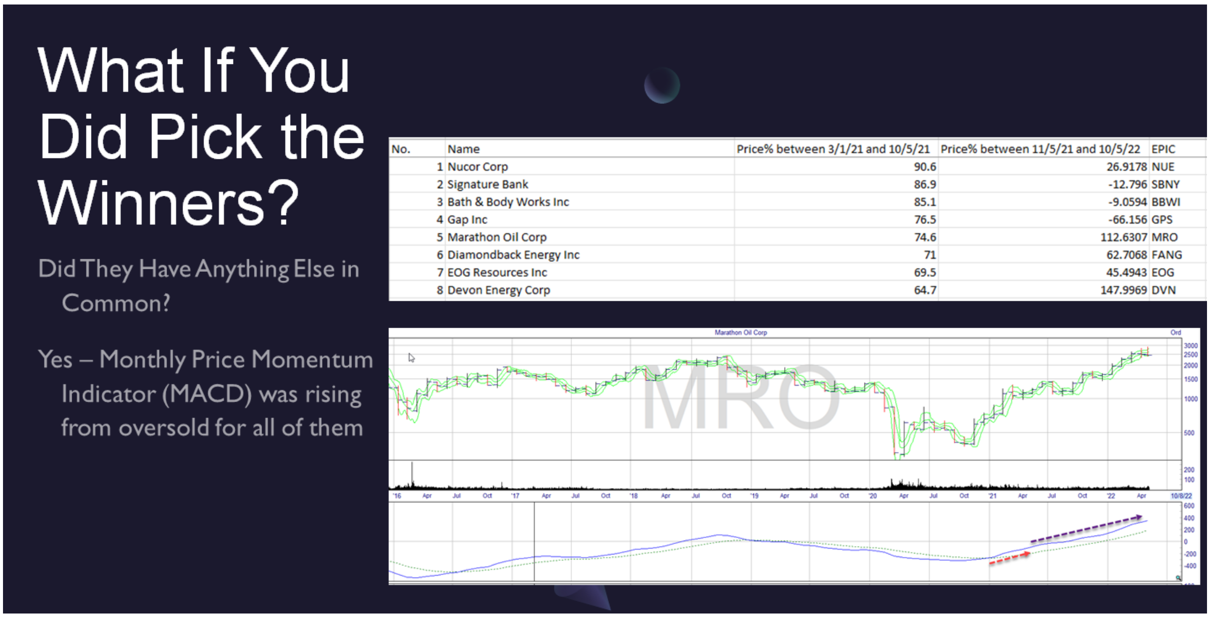
Buy In May And Go Away For 38% Return For Next 12 Months

What would happen if you decided that you know the market's down this year, but I know some of the best-performing stocks are up? Should I just buy them for the next 12 months? Well, let's test that hypothesis.

What if you chase momentum and pick the top eight stocks from the start of January to the beginning of May in 2021. So last year. Then in the following 12 months, i.e., May 2021 to 2022. Well, you'd have had a 38% return. And that's the data and the numbers to prove it.

No.	Name	Price% between 3/1/21 and 10/5/21	Price% between 11/5/21 and 10/5/22	EPIC
1	Nucor Corp	90.6	26.9178	NUE
2	Signature Bank	86.9	-12.796	SBNY
3	Bath & Body Works Inc	85.1	-9.0594	BBWI
4	Gap Inc	76.5	-66.156	GPS
5	Marathon Oil Corp	74.6	112.6307	MRO
6	Diamondback Energy Inc	71	62.7068	FANG
7	EOG Resources Inc	69.5	45.4943	EOG
8	Devon Energy Corp	64.7	147.9969	DVN

So you picked 2021, January to May, as the biggest stocks to hold for the rest of the year. Okay? You got a 38% return. What if that was a fluke? That year, last year was just a fluke because, you know, for whatever reason.



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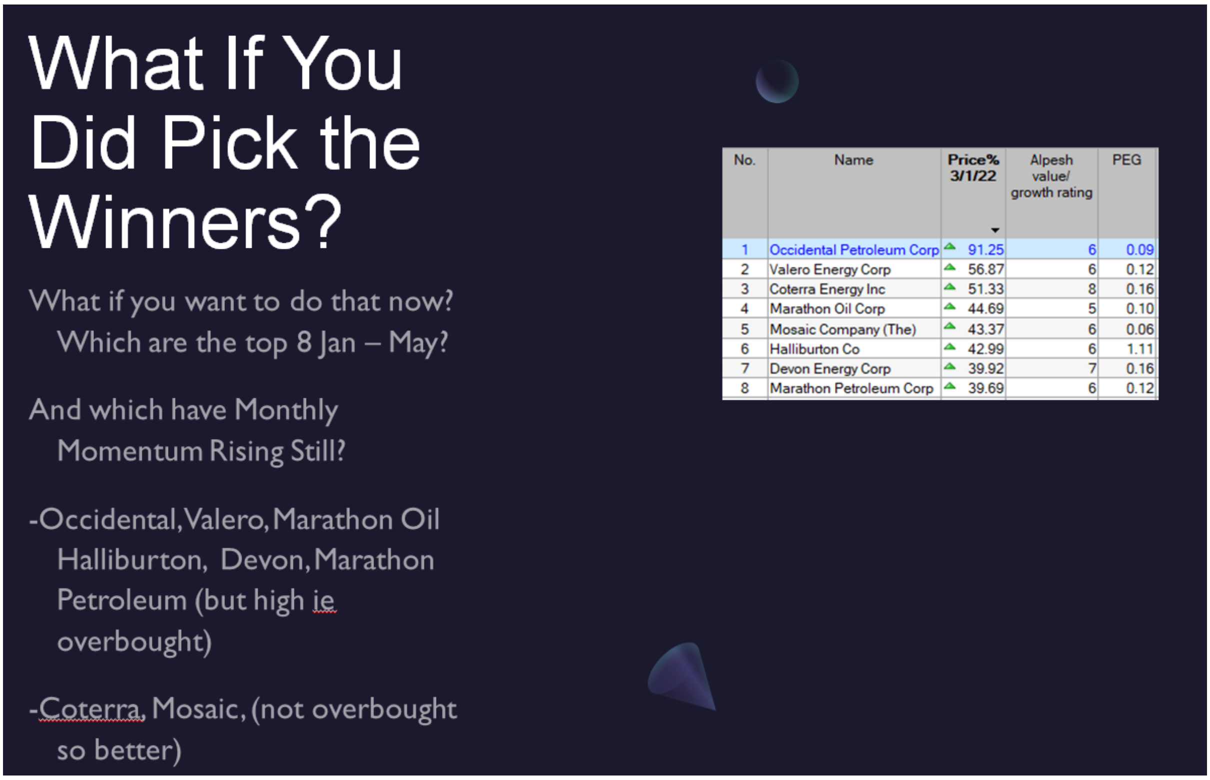
Let's pick 2018, which wasn't a particularly good year for the market. Again, over a 12-month period, you'd have a 38% return again, coincidentally. So if you picked the top eight stocks in May 2018, the top eight from January to May 2018, in May 2018 - so you'd have the data then - then from May 2018 to 2019, you generated a massive 38% return.

So you might say, "Well, Alpesh, all right. Give me a bit more. This is interesting. Tell me more." So here's a bit more. What if you did pick the winners for this year? Did they have anything in common?

Well, did they have anything in common in 2019? Yes. They had a monthly price momentum. Beyond just being in the top eight by performance in the S&P 500, they did have monthly price momentums on the monthly chart. The MACD was just rising from an oversold position. You can see it there; the bottom half of the graph. Okay? That's the other thing they had in common. They might have had others, but that's the other thing they had in common.

So we want to look at that. What if you want to do that now? Which are the top eight from January to May so far this year? Well, I've listed them there. The names are over there, which are the top eight. So you'd be holding them from now, 2022, to 2023.



No.	Name	Price% 3/1/22	Alpesh value/ growth rating	PEG
1	Occidental Petroleum Corp	91.25	6	0.09
2	Valero Energy Corp	56.87	6	0.12
3	Coterra Energy Inc	51.33	8	0.16
4	Marathon Oil Corp	44.69	5	0.10
5	Mosaic Company (The)	43.37	6	0.06
6	Halliburton Co	42.99	6	1.11
7	Devon Energy Corp	39.92	7	0.16
8	Marathon Petroleum Corp	39.69	6	0.12

But you've still got to ask the question, "Wait a minute, which ones have monthly momentum rising?" Well, Occidental, Valero, Marathon Oil, Halliburton, Devon, and Marathon Petroleum all have momentum rising, but it's a bit high. So if I bought, it might continue high - a bit like the tech stocks. They got high momentum, but they just kept going.

Coterra and Mosaic are not overbought. They've got rising momentum but not overbought, so probably better. Now I don't know if that will give you another 38% return from now to the next 12 months because, as you can tell, the data is somewhat limited, and it's a small sample size and a short period. So there are many reasons why mathematicians and statisticians will say, "What are you thinking? Don't do it."

What if you picked the worst performers? What if you did pick the losers?

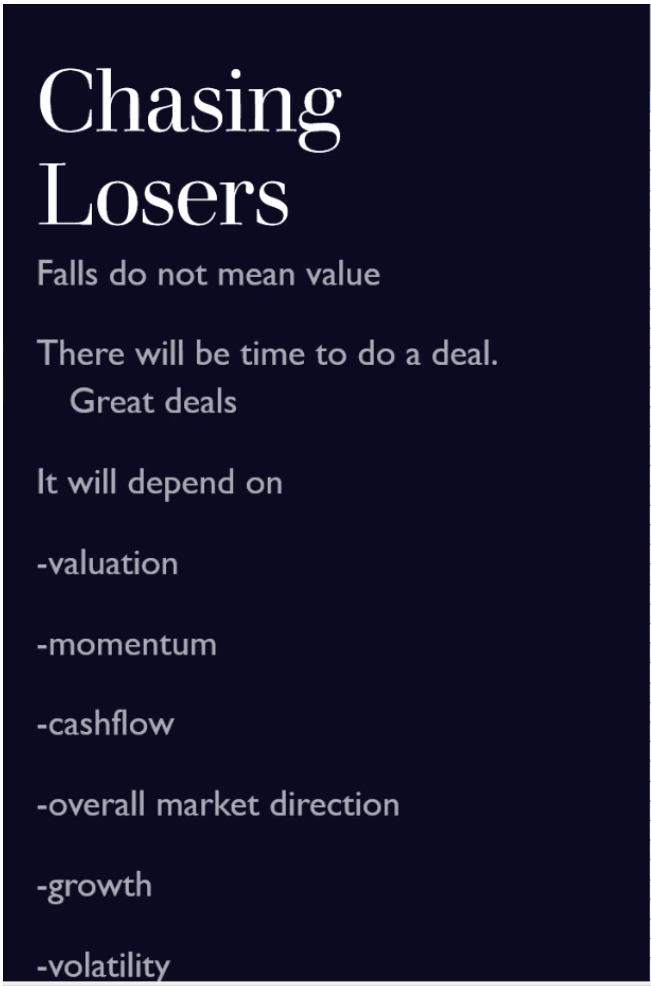
No.	Name	Price% between 3/1/21 and 10/5/21	Price% between 11/5/21 and 10/5/22
499	Solaredge Technologies Inc	-33.1	7.2772
498	Enphase Energy Inc	-32.7	24.8971
497	Paycom Software Inc	-29.9	-11.6534
496	MarketAxess Holdings Inc	-22.9	-42.9694
495	Ceridian HCM Holding Inc	-21.3	-39.7027
494	Viatris Inc	-19.7	-30.9115
493	Take-Two Interactive Software Inc	-18.7	-38.3356
492	Advanced Micro Devices Inc	-17.1	15.4887
491	IPG Photonics Corp	-16.2	-48.6081

Well, if you chased the bottom and picked the bottom ten stocks from the start of January to May 2021, and you picked them in May 2021, then in the following 12 months, from May 2021 to 2022, you'd have an 18% loss. So let's forget about picking bottom fishing and picking the dogs of the S&P 500.

The Biggest Stock Market Mistake Now

Many people will do idiotic things in the present market, and I thought I'd save you the time, energy, and, hopefully, the money from yourself and from making big mistakes. What are some of the biggest mistakes people might make?

The first thing, of course, is to chase losers.



Name	Price% 6 months ago
Netflix Inc	-73.24
Etsy Inc	-65.24
PayPal Holdings Inc	-61.14
Align Technology Inc	-61.00
Under Armour Inc	-58.27
Ceridian HCM Holding Inc	-56.01
O - Under Armour Inc	-54.64
Match Group Inc	-54.10
EPAM Systems Inc	-52.98
Gap Inc	-49.42
Generac Holdlings Inc	-48.40
Caesars Entertainment Corp	-47.04
DexCom Inc	-46.81
Salesforce.com Inc	-45.40
Phillips-Van Heusen Corp	-44.65
IDEXX Laboratories Inc	-44.57
Aptiv PLC	-44.39
Zebra Technologies Corp	-43.53
Penn National Gaming Inc	-43.35
Paycom Software Inc	-43.05
Illumina Inc	-42.78
T Rowe Price Group Inc	-42.53
NVIDIA Corp	-42.46
Intuitive Surgical Inc	-41.94
Take-Two Interactive Software Inc	-41.92
Autodesk Inc	-41.87
Adobe Inc	-41.79
DISH Network Corp	-41.61
MSCI Inc	-40.96
Charles River Laboratories International Inc	-40.95
Moderna Inc	-40.69
Norwegian Cruise Line Holdings Ltd	-40.36
Meta Platforms Inc	-40.11
Carnival Corp	-39.80
IPG Photonics Corp	-39.54
Intuit Inc	-39.23
Rockwell Automat Inc	-39.02
Boeing Co (The)	-39.00
Carmax Inc	-38.92
Walt Disney Co (The)	-38.76
Advanced Micro Devices Inc	-38.26
Amazon.com Inc	-37.51
VF Corp	-37.02
BlackRock Inc	-36.87
SVB Financial Group	-36.68

There is not enough data for it to be a good strategy, just buying something because it's fallen. As you can see here, falls do not mean value, and I've drawn them at the time of recording. I've put the six-month declines on there - Netflix is down 73%, Etsy's down 65, and PayPal is down 61.

There will be time to do a deal in some of these companies, but it'll depend on valuation, which is the share price relative to another metric, such as its assets or value, profitability, and cash flow.

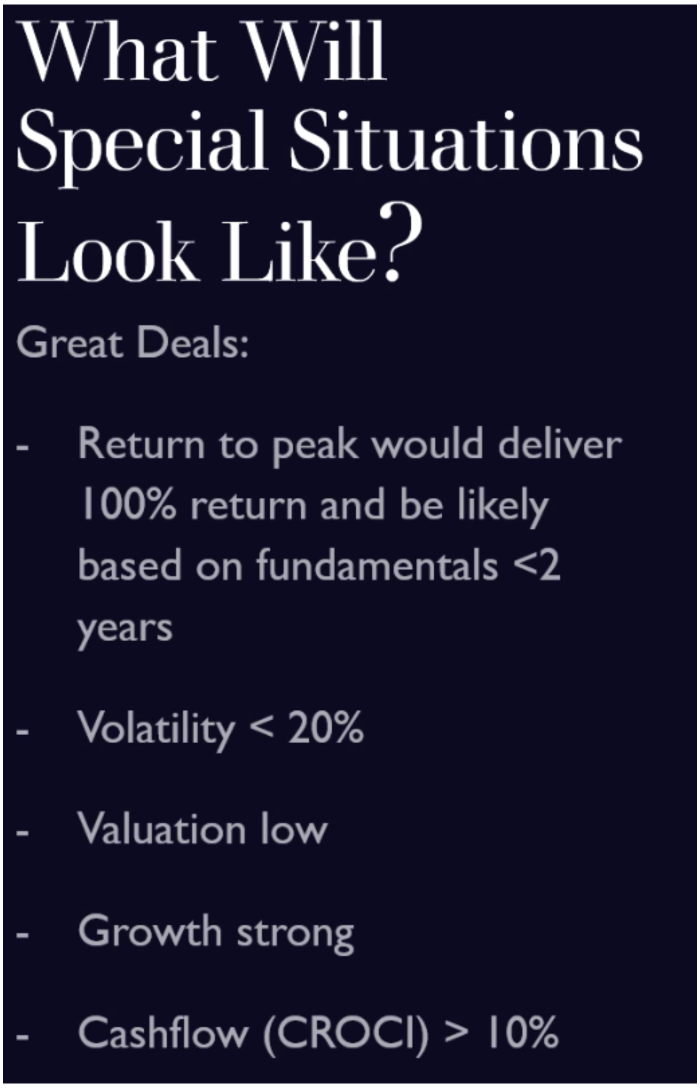
Momentum will be another factor to look at. Cash flow's always going to be important, certainly for survival, because small changes in cash flow have a massive impact on the other two main parts of a business's accounts, its balance sheet and, most importantly, its profit and loss account. We don't want to be trying to catch the proverbial falling knife.

Overall market direction, while there are obvious signs of headwinds, i.e., falling markets, you might not want to get into companies that have already been on a downward trajectory. Overall growth, revenue growth, and we'll want ones with lower volatility, particularly in a falling market or a market that in itself is already volatile.

So, big mistake, just chasing something because it's already fallen, albeit their great names. I mean, Adobe, a name for the ages, Walt Disney, great name, PayPal, I own some, great name. But would I get into it right today?

No, because it doesn't tick all those boxes right now, so we keep monitoring it every week until they start getting in our crosshairs; everything's perfect, then we lock on and close the deal.

What will special situations look like? Will there be some special situations?

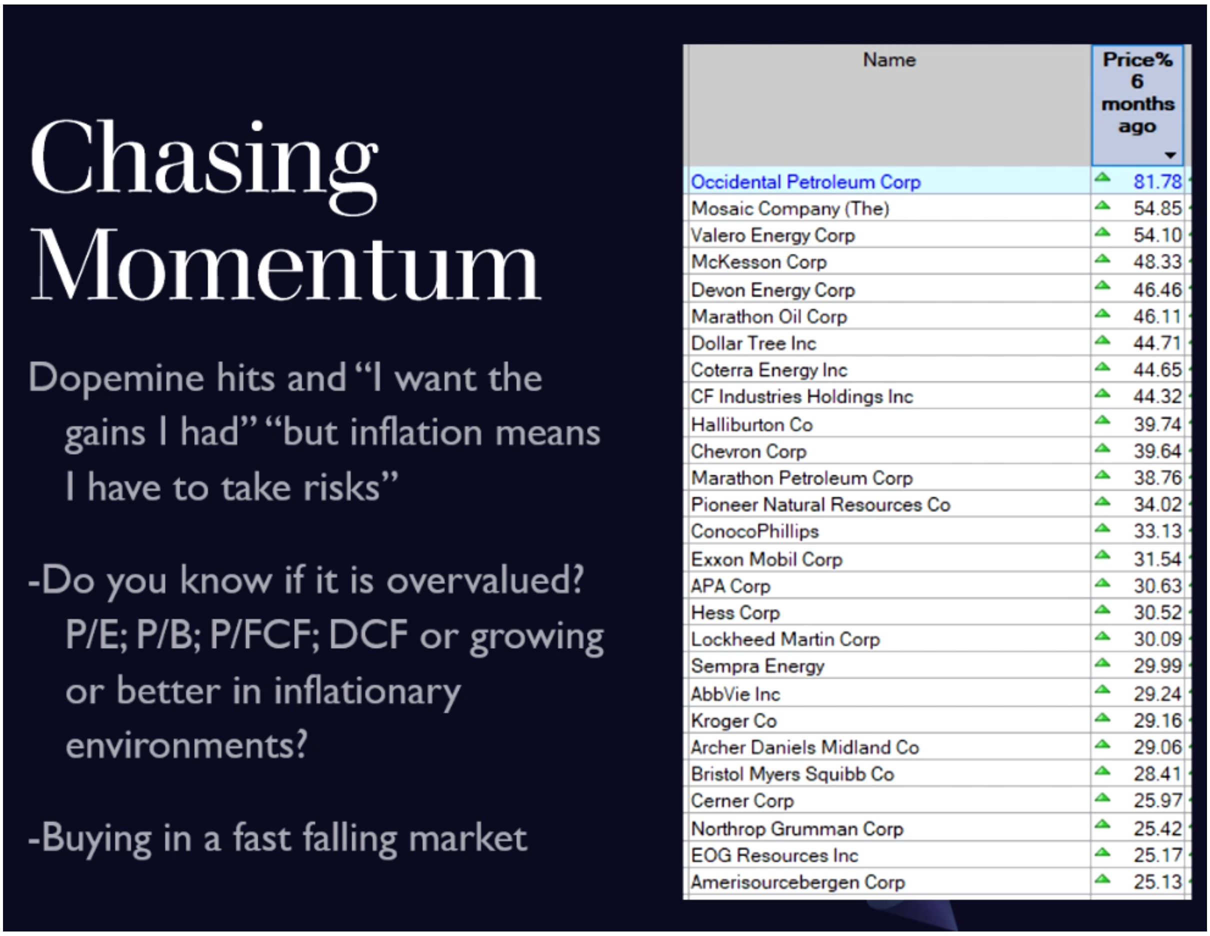


Of course, some of these companies will fall, but I'll really be looking for those that will give me a return. If they go back to the peak, they've had of 100%, and that's likely to happen, based on the fundamentals of the company, within the next two years.
So you can imagine, I'm looking for a deal that is a screaming buy, not just, "You might make 25%, 20% if you're lucky." The environment's too difficult for me only to be satisfied with such a low return as 20, 25%. I need a deal that is likely to make 100% because I still hit my benchmarks even if they fell somewhat.

I want companies with volatility below 20%. In a high inflationary environment, low volatility companies tend to do better, but also because I don't want volatility when the markets are falling. I want it when the markets are rising.

Valuation, I've already mentioned. Growth and cash flow. I particularly like the cash return on capital invested metric. Now, when all of those factors are met, and probably a few others, momentum, for instance, overall market direction, and so on, there'll be some special situations I'll get into. I have no problems holding cash until I get a great deal.

Chasing momentum.

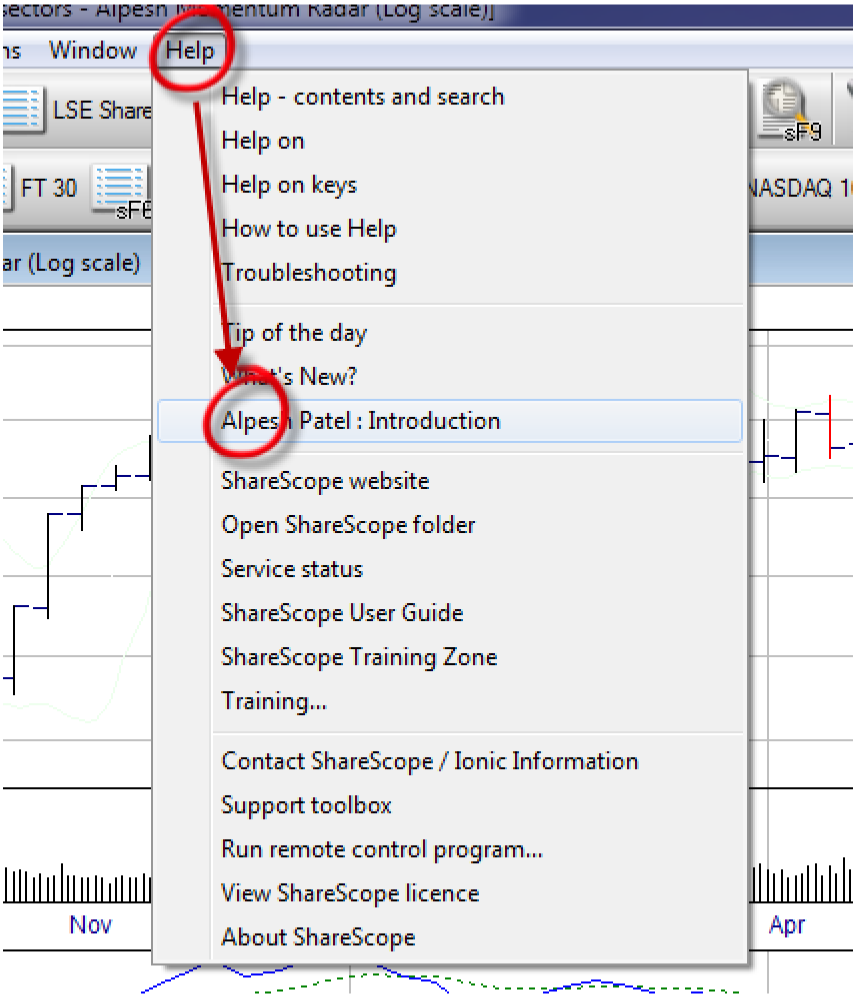


Name	Price% 6 months ago
Occidental Petroleum Corp	81.78
Mosaic Company (The)	54.85
Valero Energy Corp	54.10
McKesson Corp	48.33
Devon Energy Corp	46.46
Marathon Oil Corp	46.11
Dollar Tree Inc	44.71
Coterra Energy Inc	44.65
CF Industries Holdings Inc	44.32
Halliburton Co	39.74
Chevron Corp	39.64
Marathon Petroleum Corp	38.76
Pioneer Natural Resources Co	34.02
ConocoPhillips	33.13
Exxon Mobil Corp	31.54
APA Corp	30.63
Hess Corp	30.52
Lockheed Martin Corp	30.09
Sempra Energy	29.99
AbbVie Inc	29.24
Kroger Co	29.16
Archer Daniels Midland Co	29.06
Bristol Myers Squibb Co	28.41
Cerner Corp	25.97
Northrop Grumman Corp	25.42
EOG Resources Inc	25.17
Amerisourcebergen Corp	25.13

Another mistake. You go to the other end of the table, saying, "Wow, these ones are just shooting up. Where's my 81%? Where's my 54%? Where's my 48%," and so on.

Well, the problem here is you want your dopamine hit. You want to say things like, "I want the gains I had a year ago, two years ago, three years ago." Or you might say something like, "But inflation means I have to take risks. I have to be in the market. I could take all of these."
The problem is when you look at these momentum plays, the ones who have been doing well. Do you know if they're overvalued? Have you looked at the price-earnings ratio, price to book ratio, price to free cash flow, or even done a discount cash flow valuation? Are they growing? Are they in sectors that tend to be better in inflation environments? Or are you just buying in a fast-falling market? Maybe all the gains, therefore, have already been locked in. Simply looking at the gains over the last six months will not tell you enough whether or not this is a great deal. Okay?

Help Page



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