# 2020 Reflections

## Portfolio Performance

It was a disappointing year with -7.4% performance vs VAS.AX which recorded +2.4%.

2019 was a successful year for the portfolio, where all the large positions fired resulting in a +120% increase. However I struggled to find new conviction ideas, and ended the year highly concentrated with the top 3 holdings accounting for 93% of the portfolio: #ano 41%, #ccp 29% and #eml 23%.

Incidentally in the year of a pandemic, sunscreen, debt collection and gift cards were all highly impacted industries with share prices retreating -25.0%, -3.7%, -7.9%. Had I held the portfolio for the entire year with no activity, the portfolio would have been down -13.9%.

That was the backdrop to the major reason of the poor performance - having the portfolio highly concentrated in pandemic impacted companies. With no working-from-home tech, online retail, etc plays, there was no respite when the pandemic hit with anger in mid-Feb.

## To make things worse ...

As the markets crashed and the economy was struggling for liquidity, I started buying USD as a currency hedge for my large AUD cash balance in early-mid March. Although I was up as the AUD tanked from $0.65 to $0.57, over the months of April to June as liquidity risks subsided the AUD climbed back to the purchase price and then some. I sold the USD position in early June at around $0.68 but by then the damage was done. I did a similar thing with gold, and the heaving AUD played havoc with that position also.

The losses in #usd and #gold contributed to -2.7% to the portfolio performance. Something that seems quite frivolous in retrospect. I'm not sure exactly what the lesson here is. Whether it's not to muck around with things outside the wheel-house, or learn to take profits.

## Missed opportunities

This is not a point I lament too much on, suffice to say I didn't execute well during the depth of March and April. I was holding 67% cash on 14th March so there was plenty of dry powder to go shopping.

On the note Journal 14 Mar 2020 I wrote, what I believed to be the "darkest hour":

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### When is the darkest hour?
* New York City Shutdown

  * Stories of overloaded hospitals and nurses/doctors pulling all nighters

  * Funds forced to liquidate. Everything smashed. USD and treasuries hold up.

  * Death/Incident graphs have not yet turned.
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The intent was to buy when the market sentiment was at the lowest ebb. Though I muddied the waters by setting target prices on individual stocks as well. Below was the shopping list of companies I compiled during March and April as verbatim, when the entry was created, target price, and some quick reasoning:

- #eml #2020/03/15 $1.20. 79cps cash on the balance sheet. Perhaps 30% for canning the PFS deal with <$50m outlay. Return 60cps back to shareholders, $0.40 for the rest of the business.
- #ccp #2020/03/15 $5. If it can get through 12-18m and survive, it'll be a no-brainer.
- #rbl #2020/04/01 $0.40. Should be a no brainer at this price. Completely online, negative working capital, and should be able to withstand 40% revenue drop.
- #sko #2020/04/03 under $1.00. With no more than $2.0m cash burn, should be able to last until March 2022
- #ad8 #2020/04/03 under $2.00. Roughly 4x sales. 68.4m shares on issue

None of the prices got hit. Setting target prices conflicted with buying at the "darkest hour". The lesson here is probably be very clear about the exact criteria to trigger purchasing decisions.

It's hard to draw too much from these once-in-a-lifetime events. Those that did well in 2008 are unlikely to back it up in 2020, and the next one would be different again. While it's easy to draw experience from the past to apply for future events - every event is different and everyone else have learned the same lessons. Next time will be different again. Try and take away some broad lessons that transcend individual situations.

Main takeaways:
- Protecting your mental mode is the number 1 priority. In order to be positioned to exploit opportunities you need to think clearly, everything else is a lower priority.
- Have clarity over the exact criteria to start buying. Don't have conflicting criteria.
- Perhaps go 1/4 or 1/3 earlier while retaining plenty of ammo should when the criteria is hit.

## Selling and rebalancing

Although I started selling in late-Feb to mid-March, some of my chunky #ano sales did extend into early April due to the extended trading halt pausing my rebalancing intentions. My selling, including bottom buys and rights issues, during the period averaged:

- #ano $4.01
- #ccp $28.24
- #eml $4.09 (complete exit)

From a pure numbers perspective, the reduction in #ccp and the complete exit on #eml have had immaterial impacts to the portfolio performance, since the price now is similar to the sale price. With a higher price currently, my #ano sell was a -1.7% drag to portfolio performance.

When it became clear that these companies were going to be deeply impacted, I headed for the exits. Overall I'm generally happy with the selling and the optionality it brought with being able to reposition the portfolio. I could have sold with even more decisiveness from the beginning, but that's a minor consideration.

## Things that went well

The year's activity, excluding currency hedging, contributing to +9.2% of the portfolio performance (difference between do nothing and actual result minus hedging screw-up).

### Going small ball

It wasn't until mid-late May, when much of the bounce had already happened, that I decided to swing at lower conviction stocks with smaller position sizing. Most worked out pretty well:

- #jan mid-May, +82% average
- #8co mid-July, +138%
- #som mid-August, +49%
- #skf mid-August, +28%
- #mai mid-October, +44%
- #slc mid-October, +12%

I was caught trading #cgs and #zno , but the damage was very limited.

This is an adjustment I'm really glad I made. It gets you into a better frame of mind, and

better habits to research more companies. Rather than waiting for a big conviction play that may never come.

## Changing my mind

After missing out on a potential 4-5 bagger on #rbl during the March lows, by early August I was still interested in the company at a much higher price. Online retail was booming, and the small incremental market share gain had been a huge boon for the company. Should the company be able to just hang on to a portion of the gains in a post-covid world, they'll do very well with an undemanding valuation.

Despite having a management team I'm not completely sold on, the company demonstrated resilience and agility (releasing mask product) during a period of extreme uncertainty. And many of us were wrong about the impacts of the pandemic. Discretionary retail wasn't hit, in fact it was booming.

Bought in early-August, and topped-up in November when the share price had a minor panic. +92% average.

## Big swings

**GUI.PA** #gui +42%

I first came across the company on the 18th August, and by the 24th I had an IB account open and was building a position. It's a consumer product business that is super easy to understand the competitor dynamics, had some major tailwinds in covid and MS Flight Sim 2020, and was priced super cheap - 0.7x EV/Revenue and 12x EV/E in an ordinary non-tailwind year (2018). Just needed to get comfortable with the accounts, and any unexpected gotchas.

Knowing that it would likely run quickly, I crammed and did things at haste over the next few days. Spoke to some guys on Twitter that were invested, modelled things out. And later subscribed to Jeremy Raper's newsletter to get his views and to double check the financial modelling. After months of trawling through expensive ASX small caps, this felt like a fat pitch, and I went in for the slog.

**ERD** #erd +24%

This immediately felt like a type of company that I've been very poor at in the past. Leading solutions, quality company, stable upward growth in the top-line, with high gross margins, and a respectable valuation. Having missed out on #pph , #ad8 , #xro after having very close looks at them all - one thing I underestimated is how long growth can continue for leading products and services.

So I built up a position. I also did a writeup for MicroCapClub, and once I finished I had even more conviction and bought more. Doing a write up definitely encouraged a lot more effort to be put into the clarifying the investment thesis. It's something I should do more of in the future.

## Summary

Portfolio performance: -7.4%
Biggest positives: #gui #rbl #jan #erd #8co
Biggest detractors: #ano #eml #gold #usd #ccp
Largest holdings EOY CY19: #ano 41%, #ccp 29%, #eml 23%, #cash 4%
Largest holdings EOY CY20: #ccp 16.0% , #ano 15.8%, #erd 14.8%, #gui 12.2%, #rbl 6.2%, #jan 5.8%, #cash 20.7%

## Final thoughts

The portfolio was adversely affected by a high concentration of holdings negatively impacted by the pandemic. In many ways I was lucky to have paid such a small price for the scenario that eventuated.

The challenging year forced a reset. A sell down of large holdings, and a re-balance into new ideas. As a result I'm much more comfortable with the state of the portfolio exiting 2020 than the same time last year.

Keep going. Keep turning over rocks. Do the work. Keep finding good businesses and situations that you want to be in for the medium and long term. Dabble if you're not quite sure yet, and build the confidence.

## Zooming out over the last 10 years. Focusing on things that matter.

10 year absolute returns by stock
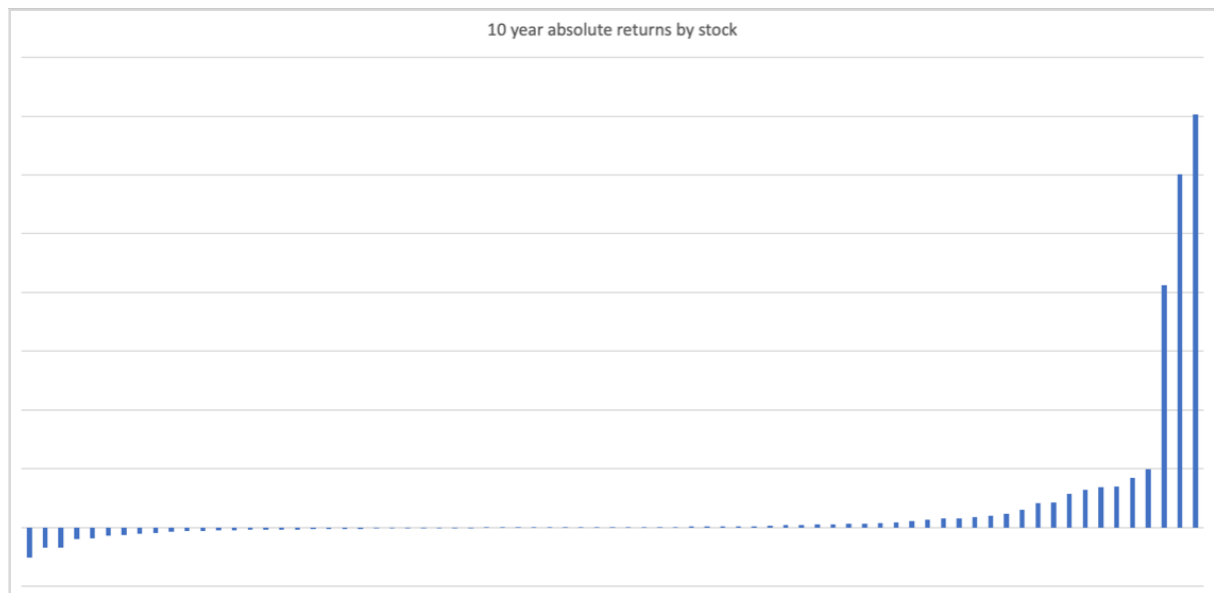
Fun facts:

- 61% strike rate
- 3rd largest win covered all losses and then some (+50%)
- Tax adjusted dividends covered 80% of all losses.

Searching for and holding multi-baggers drives all the out-performance. This should always be the number 1 focus.