Truffle Portfolio
1Q 2024 Investor Letter

Dear Long Term Investors,

We just completed the first quarter of 2024 and I thought it would be appropriate to share the portfolio performance in 2023 and do a forecast of the 2024.

For the year of 2023, the Truffle Portfolio has achieved a return of 43% on average vs SP500 24%. As investors hold individual managed accounts and join the portfolio at different time periods, the individual returns may vary. You will be able to see your own portfolio returns at the online portal - https://wm.phillip.com.sg/

While I am very happy that our portfolio strategy has delivered market-beating returns in 2023, I am also cautious that investors may assume that this will be the "new normal" for Truffle Portfolio. So let me emphasize that this will not be the case. In fact, if a portfolio compounds at 43% annually for just 5 years, it will grow more than 590%!

Growth Table	
Year/Month	**Value**
0	100.0
1	143.0
2	204.49
3	292.42
4	418.16
5	597.97

While I also love to see this type of returns, as rational investors, we must recognise that this is almost impossible. If anyone were to approach you and promise this type of returns, you should turn the other way immediately. (Unfortunately, many people are still attracted to the promise of unrealistic returns and end up in investment scams.)

At Truffle Portfolio, we focus on the essence of investing—identifying and investing in high-quality businesses at favorable prices. Our philosophy steers clear of short-term speculation, emphasizing a process-driven approach over chasing ephemeral trends.

On the topic of "returns", the most common question I receive when meeting new investors is "What is the expected returns?" This seemingly straightforward question is indeed profound.

Investors would want to know what is the return that they can expect when they invest with us. However, the truth is, no investment manager can guarantee specific returns.

Why? Because it is not something that investors can control.

When we invest in the best businesses, we cannot control when the market will realise its value.

We cannot control macro factors such as a pandemic that will shut down the world for almost 2 years and the rise of Artificial Intelligence right after that.

Whoever claims that they can predict the future, they should be treated with extreme caution.

So what do we do here at Truffle Portfolio?

Based on past statistics of fundamental investing and value investing results, we know that when we focus on the correct investing process, the returns will take care of itself in the long run.

So it is not a matter of "If" but "When", and when I onboard new investors, I would make it very clear to them that we are not FOMO-chasing. We don't chase after popular names. We are process driven and not greed driven.

With that said, I would still like to provide an expected return to appease some investors. So when I did an average of returns based on value investing strategies that are similar to ours, I arrived at a number between 16-18% average return.

Before investors get too happy and run away with the number, it is important to set the stage. (A little knowledge of statistics will help)

Imagine a classroom of 15 students. In this case, we're focusing on their heights. The average height of the students is 170 cm, which at first glance might suggest that they are all fairly average in height.

Can you guess how many student's height is 170cm?

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The answer? Zero!

Why?

Student	Height (cm)	Student	Height (cm)
1	160	9	172
2	162	10	173
3	165	11	175
4	167	12	177
5	168	13	180
6	168	14	182
7	169	15	185
8	171		

Despite the average height being 170 cm, the individual heights range from 160 cm to 185 cm, showing a broad spectrum of heights. This scenario illustrates the concept beautifully, demonstrating that while averages can provide useful summaries, they can also obscure significant variations within the data. This serves as a perfect example to highlight how averages can sometimes be misleading and fail to capture the diversity or the extremities within a group.

Hence, even with an average return of 16-18%, it might not be very informative as the actual yearly returns may vary around the long term average, leaving investors none the wiser about the yearly returns. Therefore, as investors in the Truffle Portfolio, it is important to focus on the long term returns and less emphasis on the short term fluctuation.

At this point, **please allow me to thank all of you who have invested with us**. We are humbled by your support and patience through the tough year in 2022 and we are finally reaping the fruits of our labour in 2023. We will continue to strive to find great companies and great prices for our investors as we believe that is the best and safest way to grow our wealth in the long term.

What is happening in 2024?

Let me dive into macroeconomics in 2024.

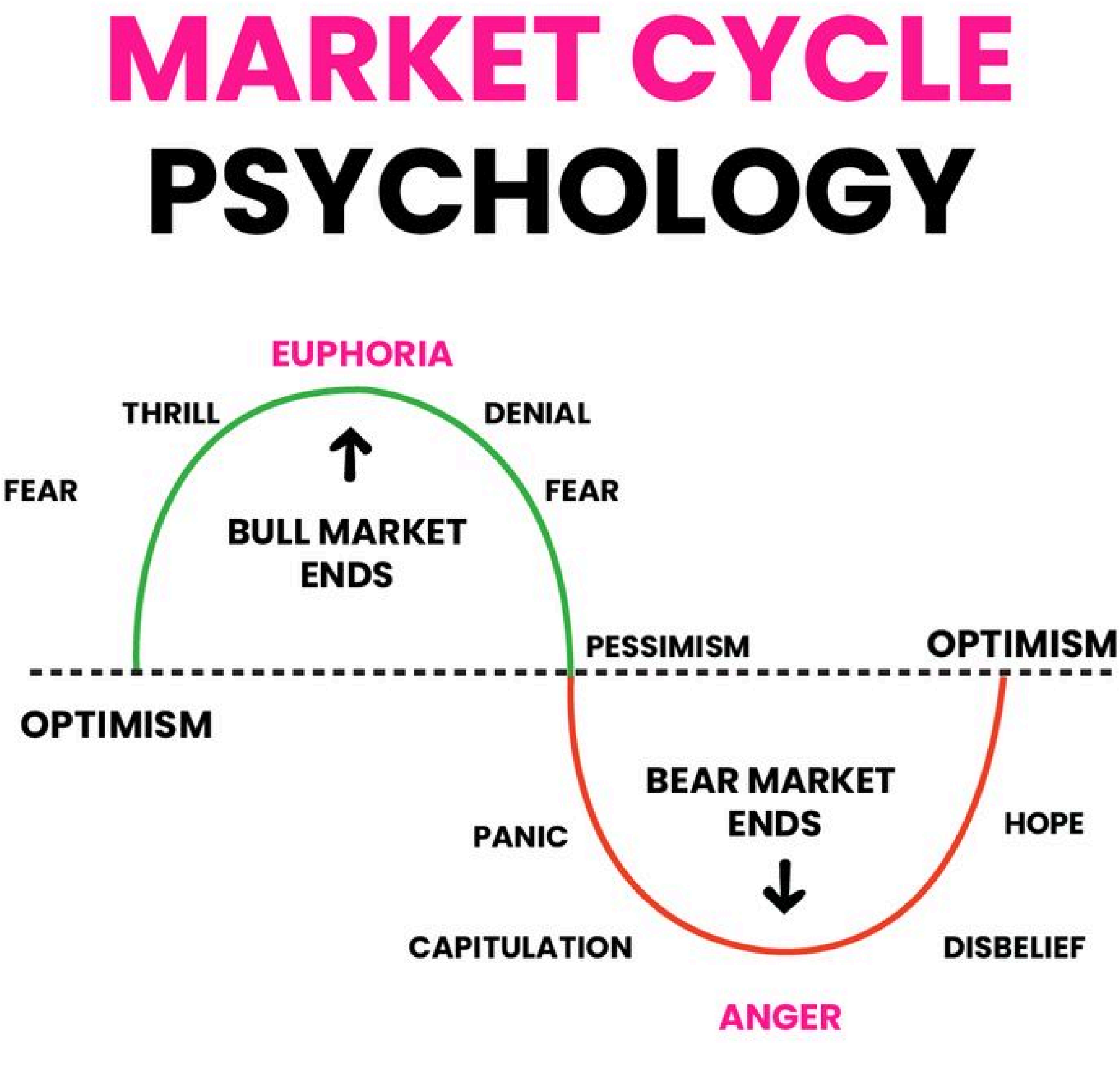
My immediate observation is the market disbelief in the strong economy and rising stock market. This is an illustration of "Pessimism of Disbelief" by Ken Fisher, a famous fund manager and also someone that I look up to.

The idea of **"Pessimism of Disbelief"** is a combination of sour sentiment coming out of a bear market and better-than-expected economic results often present a backdrop of a normal bull market.

The SP500 just came out of a serious 27% decline in 2022 and now we are just coming out of its depth. However, the past decline has left a bad taste in many investors' mouth, especially those who invested in the high growth segment. The scars from 2022 have resulted in very poor sentiment in 2024. Many investors still refuse to believe that the bear market is over and we are now in a secular bull market.

Source: Tradingview

Honestly, it is not an easy call to make because market psychology can be hard to predict. Looking at the picture below, many may assume that the current market is in the "Thrill" or "Euphoria" segment of the cycle. But let me share my thoughts why I believe we are closer to "Disbelief".

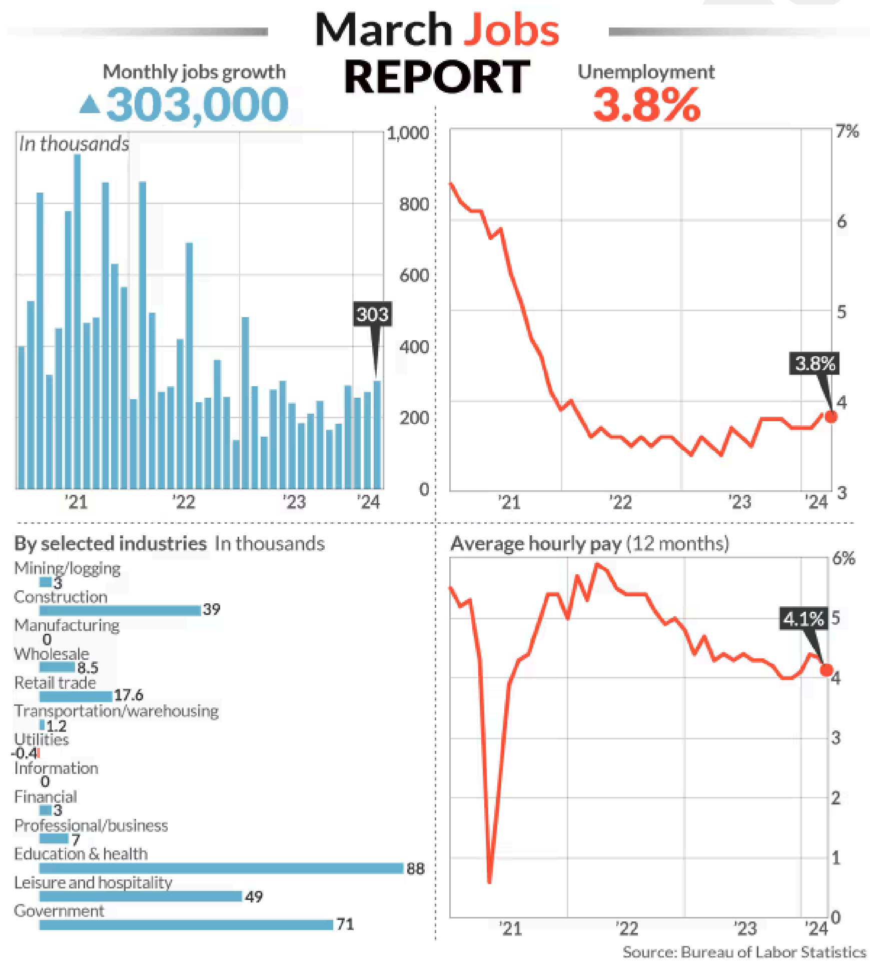


Strong Jobs Report

We are witnessing a steady increase in monthly jobs growth and unemployment remains low at 3.8%. At the same time, hourly pay has declined meaningfully. This combination indicates that while more people are getting hired, the wages are not increasing.

At the same time, we are also seeing many companies cutting back on hiring and downsizing their workforce (which got overstaffed during COVID). Hence this wider spread of wealth is not gonna cause further inflation.

All these points towards a sustainable strong economy and lower inflation (yes they can happen together).



Source: MarketWatch

Interest Rate Cut

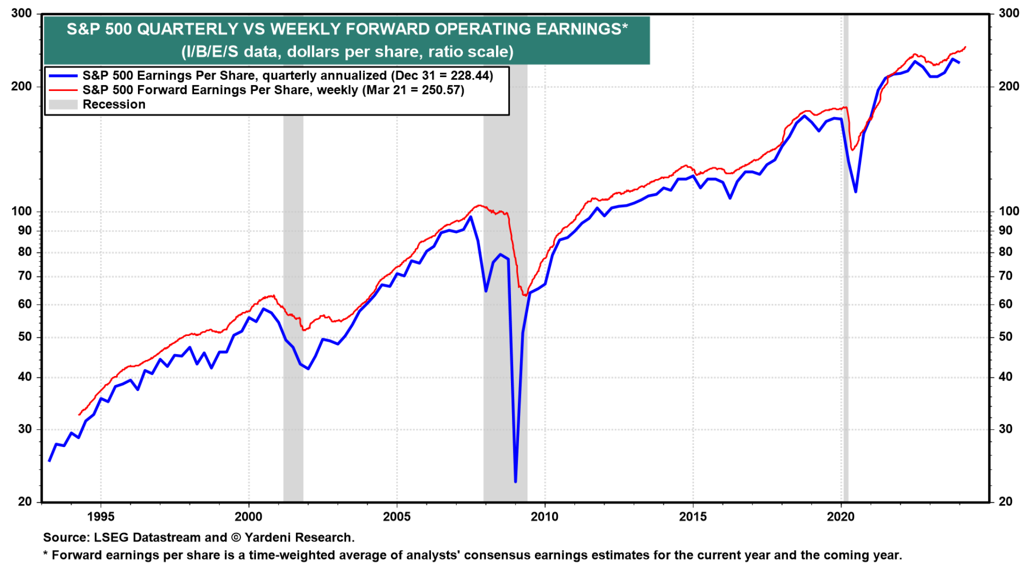
The Federal Reserve (Fed) has made it plainly clear (especially Chairman Powell) that slightly stronger economic data is not going to deter them from cutting rates as planned. Why? Because that is the true [mandate of the Fed](#)

1. Maximum employment
2. Stable prices
3. Moderate Long Term Interest Rates

Hence more jobs and lowering interest rate to a moderate level are in the interest of the Fed. Furthermore, 2024 is an election year. Neither Blue or Red would want to enter an election with a worsening economy.

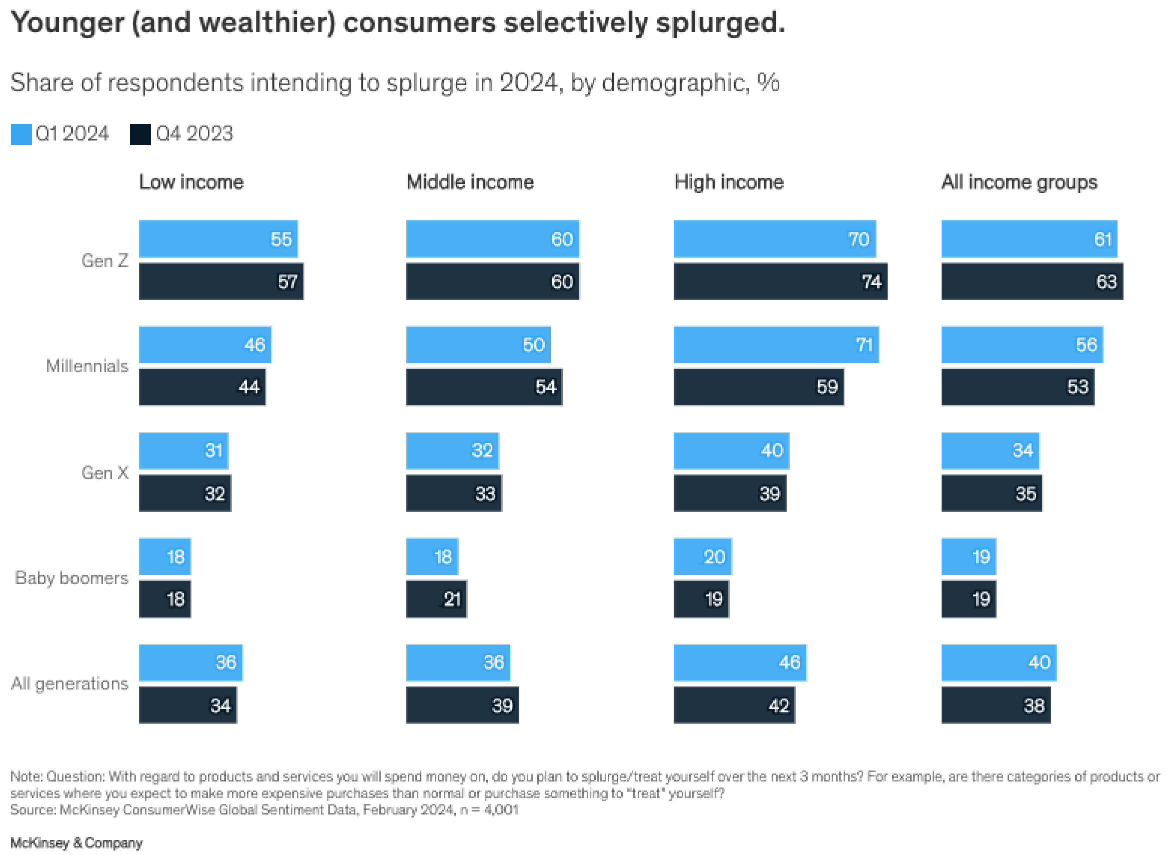
Improving Corporate Earnings

A strong market must be supported by strong corporate earnings. In particular, we are seeing rapidly higher corporate earnings as we come out of the recent bear market.



Why higher corporate earnings? Because consumers are spending more.

This is very different from the crash of 2000 where rising stock prices are supported with "ghost" earnings and the crash of 2008 where there is excessive leverage in the housing market. (The higher interest rate has rid of many of those debts)



Before I dive further, let me announce that the portfolio is now opened for fresh funds from both New and Current investors.

If you are new to the portfolio, we are able to accept both Cash and SRS funding (in separate accounts). If you like to open a new account with us or top up an existing account, please find the information below:

For New Accounts

1. Apply at https://investwithpete.co/how-to-apply

2. Min. investment sum is S$50,000 (Cash) and S$30,000 (SRS) or equivalent in other currencies

For Topping Up Existing Accounts

1. Min. investment sum is S$10,000 or equivalent in other currencies
2. Follow the funding instructions at https://www.poems.com.sg/payment/
3. State their ACCOUNT NUMBER and ACCOUNT NAME clearly in your payment remarks

Sidenote: For those using SRS funds, do remember to fund your SRS bank account by 31 Dec to enjoy the tax benefits. You can find my complete guide to SRS here.

We will close this funding round by the **end of May** and focus our attention back to managing the portfolio for 2024.

Thank you for your continued investment.

Truffle Portfolio's Direction in 2024

We will continue to stay focused on finding great, undervalued businesses.

Therefore my prediction is other assets such as stocks, properties and even cryptos and gold will experience a melt-up situation.

What is "Melt-Up"?

There are many definitions of melt up and I will offer mine here.

"A melt up is when the prices of an asset increases, not because of better fundamentals or earnings, but simply by having more liquidity inflow."

The stock market historically on average returned about 9-10%. Hence, as the returns of bonds and MMF become less attractive, it is a green pasture for investors. If the 20% outflow in 2023 returns to the stock market in 2024, we are due for a very good year.

Source: Truffle Portfolio 4Q2023 Investor's Letter

In my last letter, we talked about the "melt-up" in the overall market and we are witnessing that right now. In fact, all 4 asset classes (stock, properties, crypto and gold) have gone up significantly since then.

In 2024, we are finding good value in the unloved sector of banks and asset management. While most of semicon seems richly valued, we managed to find a few hidden gems of a semiconductor to invest in and it has since been profitable.

A Cautiously Bullish Approach

Our outlook remains the same as last quarter, stay invested to ride the bull market while looking for strong companies to invest our money. While we maintain our bullish outlook on the market, we will approach the coming months with caution. Overall, I view 2024 as a great investing opportunity as the clouds of uncertainty clears and provide more confidence in the market.

Our team remains vigilant in monitoring market conditions, assessing macroeconomic trends, and identifying potential catalysts that may impact our portfolio. We are committed to preserving and enhancing the value of your investments, diligently reviewing our holdings, and rebalancing our positions as needed.

Conclusion

In conclusion, we are pleased with the progress our portfolio has made, exceeding market expectations and delivering robust returns. The current market environment presents both opportunities and challenges, and we remain confident in our ability to navigate these waters while preserving the value of your investments. As always, we appreciate your trust and continued support.

If you have any questions or concerns, please do not hesitate to reach out to our team at petetanpy@phillip.com.sg.

Reminder: For those who would like to open new account or top up your existing accounts, please do so before the deadline.

Thank you for your continued partnership.

Regards,
Pete