

# The Next Level Portfolio

## 2Q 2022 Investor Letter

**Dear Long Term Investors,**

I have been meaning to write to you but I want to finalise a major enhancement to the portfolio before I do and it took longer than expected, hence the delay.

The portfolio's performance in the last two years has been rough to say the least. On average, the portfolio is down 20% since inception. This means some accounts are down less and some accounts are down more.

While it is never fun to experience such volatility, it is expected. Our ability to withstand the volatility comes from two factors.

1. Market is inflationary. Even though it has short term downward swings, the market tends to go up over time.
2. Good businesses will have higher share prices in the long run.

Therefore, I am not fazed by such volatility because the quality of the businesses in the portfolio remains high.

During the past months, we have experienced several investors leaving the fund as the volatility was too much for their appetite.

However, we also had investors adding more funds even when we didn't call for it.

So before I begin the actual letter, I would like to thank you for having trust in me and the investment process. It is comforting to know that you understand that volatility is part of the journey and wanting to add more funds.

### **Learning from Mistakes**

As usual, I like to start with the mistakes that we make in the last quarter.

While we are still confident of the companies in our portfolio, one mistake was that **we did not bargain enough**. Some of the positions were bought with a price premium which I thought was justified given the high business quality.

Once again, the market makes its own decision, and the premium has since disappeared and we are in red territory.

So what is the lesson here?

Barbell strategy has worked many times in the past and there is no reason to suggest that this time is different.

The main lesson is to **be more disciplined with valuation**. While good businesses do command a higher premium, a margin of safety is still required.

Paying less means higher future profits, and larger margin of safety should the market turn south like current times.

Lastly, I want to confess that this is not my first investing mistake and it will not be realistic to expect it to be my last either.

Thus, my goal is to ensure each subsequent mistake is less dangerous and has less impact on the investments.

Especially in uncertain times, fatal mistakes can lead to permanent loss of capital.

## **Market Picture**

Looking at the macro picture, the market has been occupied by conflicting news.

We have rising inflation coupled with rising interest rates, rising oil prices; compounded by increasing chances of recession and supply chain disruption.

In normal times, these factors would not have occurred at the same period but here we are.

On the regulator front, the Fed seems to be the central focus. Jerome Powell seemed hell bent on lowering inflation by raising the interest rates with no upper bound. I think he will need to see at least several months of lower inflation before he will signal slower pace of tightening.

Overall, it is a noisy and messy environment which may be scary to the public but it is music to my ears. While uncertain times can be challenging and scary, it always brings about opportunities.

Therefore I have made a major addition to the portfolio.

### **New Fund Advisor**

While I try to read as much literature as possible, I am well-aware of my own personal biases and limited competency.

With the market giving us much better prices than before, I don't want to waste the opportunity.

Hence I spent the past few months convincing a great investor to come onboard as Fund Advisor.

He is none other than my investing mentor, Sean Seah.

Those of you who are familiar with Sean, you would know that he is a free-spirit. He prefers to invest on his own terms.

When I was persuading him to come onboard, he was concerned that he would be inundated with investor's questions and queries.

I assured him that that would be my job. His job is to be my advisor and research partner.

Sean will be my “second brain” to enhance the research rigor and cover my blindspots when making investment decisions. I have given him the full liberty to challenge any stocks ideas that my team and I share with him.

Our goal is to bring together a model portfolio of high quality business, just like Autozone which I shared in the recent [livestream](#).

With that said, I am still fully responsible for the fund as the Portfolio Manager. There is no delegation of responsibility. If you have any questions about your account with us, please do not hesitate to contact me at [petetanpy@phillip.com.sg](mailto:petetanpy@phillip.com.sg)

### **New Fund Name**

In addition to a new fund advisor, we are also changing the name of the investment service.

Previously, it was named the Next Level Portfolio with the intention of bringing everyone’s wealth to the next level.

However, every investment portfolio is different and each person’s “Next Level” is subjective to the individual.

Hence, we decided to rename it. But it took a interesting turn. Let me share the origin story.

During the recent livestream, I use the analogy of truffle hunting to describe my investing process.

- Truffles are hard to find
- They are hidden among mud and dirt
- A truffle on the surface is indistinguishable from its surrounding dirt
- Only 1/100 digs will yield a good truffle

If we take the time to go through each piece of dirt, and peel back the mud, we will find a beautiful truffle every once in a while.

And when we do, we will recognise the distinct truffle smell almost instantly.

That is exactly like investing.

We dig through companies everyday. Most of the time, the companies will not be attractive to us (dirt). But if we are persistent and know what we are looking for, we will find a great company eventually (truffle).

While great companies come in different business models and different industries, it is like a truffle, you know one when you see one.

### **The Truffle Fund**

While Sean and I originally had a “more serious” name in mind, most viewers at the livestream thought that “Truffle” was a better name.

I think the name also captures our investing philosophy perfectly.

Honestly, it doesn't matter what the fund is called, so long we do right by our investors.

And by bringing in the best investing minds I know, I believe it will be highly beneficial to the fund in the long term.

By the way, if you missed the livestream and would like to catch a replay, you can find it [here](#).

### **Changes Ahead**

Moving ahead, I will be reviewing all our holdings in the coming weeks with the help of Sean and the investing team.

While I am confident with our current holdings, there will be no sacred cow.

If I cannot successfully defend the position, I will change it out.

So do expect changes in your portfolio.

## **New Accounts and Top Ups**

Lastly, since the prices have since retreated to more reasonable levels, we are seeking more funds to take advantage of the opportunity.

We are happy to announce that the **Truffle Fund is opened for new accounts and top-up funding to existing accounts.**

### **For new accounts**

1. Apply at <https://investwithpete.co/how-to-apply>
2. Submit both online application and the pdf forms
3. Min. investment sum is S\$50,000 or equivalent in other currencies

### **For top-up funding to existing accounts**

1. Transfer your funding to the Phillip Capital account (For SGD transfer: <https://www.poems.com.sg/payment/> , Other currencies transfer: <https://www.poems.com.sg/helpcentre/PSPLTrustAccounts.pdf> )
2. State their ACCOUNT NUMBER and ACCOUNT NAME clearly in their payment instruction
3. Min. top up sum is S\$20,000 or equivalent in other currencies

With that, I will see you in the next investors' letter!

Regards,  
Pete