

Truffle Portfolio

4Q 2023 Investor Letter

Dear Long Term Investors,

As the year end draws near, it is time for another Investor Letter for the Truffle Portfolio.

Year to date, the Truffle Portfolio has achieved 23.51% on average vs SP500 18.53% as of writing (6 Dec 2023). You will be able to see your individual portfolio returns at the online portal - <https://wm.phillip.com.sg/>

I am very happy to share that the portfolio has delivered market beating returns in 2023. We are humbled by all our investors' support and reaping the fruits of our hours and hours of research. 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.

You might notice that I said "our wealth", not just "your wealth". That is because both my partners and I have placed significant amounts in the Truffle Portfolio too. The reasons are simple.

1. Self Interest - We have seen the strategy work well in the past and we want to benefit from it too.
2. Skin in the Game - As this is a discretionary portfolio, we have full autonomy over the investment selection. Hence, our interest must be aligned with our clients. We will benefit and suffer together with our clients. This will propel us to think in our clients' shoes.

"Show me the incentives and I'll show you the outcome." - Charlie Munger

In 2024, we will continue to act with discipline and research deeply into the companies before we invest. On average, we spend more than 3 weeks of research on each company before we bring it to discussion and decide whether to invest. And from that, only about 1 in 15 stocks passes the final debate and gets included in the portfolio.

Before I dive into further details, let me announce that the portfolio is finally 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 December** and focus our attention back to managing the portfolio for 2024.

Thank you for your continued investment. Now let's talk about the stock market.

What will Federal Reserve Do in 2024?

As we enter the year 2024, market analysts and economists are closely monitoring the trajectory of economic indicators and Federal Reserve policy. Amidst evolving global economic conditions, there is speculation about the possibility of the Federal Reserve implementing a rate cut in 2024.

My opinion is slightly different.

Macro Matters

Fed keeps rates unchanged, Powell hedges on possible end of tightening campaign

By Howard Schneider and Michael S. Derby

November 2, 2023 6:00 AM GMT+8 · Updated a month ago



Source: Reuters

While Powell rules out any rate cuts in the near term, it is quite clear that the Fed is not going to raise rates further. Hence we are in the situation where interest rate only has two paths.

It is either going to stay high, or reduce slightly as the inflation data improves.

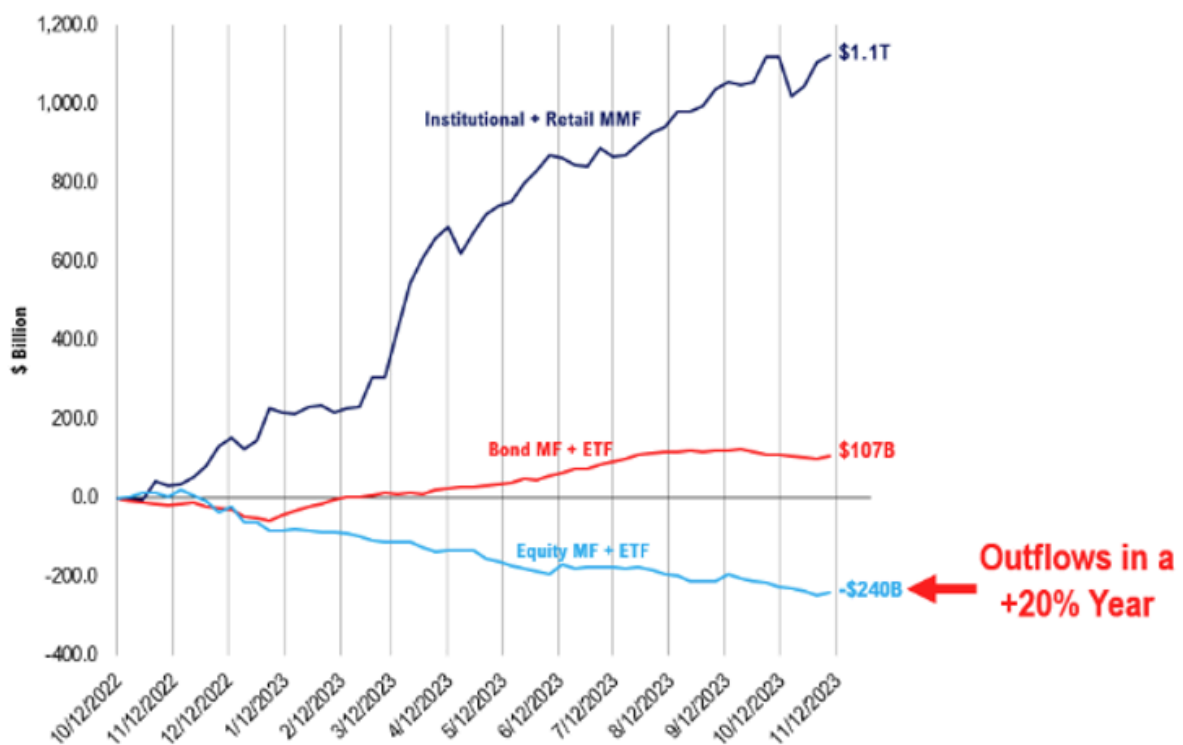
Therefore, I believe we are already at the peak interest rate seeing the latest Jerome Powell's comments.

With that said, it is important to analyse and decide what are the actionable investment steps one can consider.

What Will Happen When Interest Rates Stop Rising?

Currently there is a large amount of funds flowing into the money market funds (MMF) because of the relatively higher interest rate. Based on Bloomberg's data, MMF inflow reached \$1.1T while Equity funds had a \$240b outflow in 2023. That is a 20% liquidity exiting the stock market in 1 year.

Cumulative Fund Flows by Asset Class
Since October 2022 Low



Source: Fundstrat, Bloomberg

However, with the interest rate halting and potentially coming down, it is reasonable to predict that money will exit these MMF and enter other assets in search for better returns.

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.

Rotation from “Growth” to “Value”

However, we must not be too carried away with the good news. The stock market is an amalgamation of different categories of stocks and there will be losers and winners.

While the interest rate hikes are likely to pause, it does not mean it will drop. A plausible scenario is maintaining high or the common market saying of “Higher, Longer”

This means we could also see the interest rate maintaining at the current levels for a longer period. Hence, the melt up of the stock market is unlikely to be led by the “growth” names which rely on low interest rates of the past.

Instead, it is likely to be driven by prudent investment of funds into the **proven and profitable companies, which are generally termed as “value” names.**

These would include stocks which are selling for a undervalued or reasonable price, stocks which pay a good dividend, and stocks which have a business moat and profitable track record.

And this is the type of stocks that the portfolio will be focusing on.

Quick Review of the Portfolio Holdings

In 2023, our investment into homebuilders and semicon has worked very well. Frankly, when we started the year with these investments, there were some doubts in the market. That is because most people expected the economy to slow down and for housing and semicon to take a beating.

But we took a different view. Not because we want to be contrarian but the data tells us so.

While higher interest rates do affect home prices, most US mortgages are 30-year fixed. That means most of the homeowners are not affected by the increase in interest rate. The higher interest rate actually prompts them to stay put in their current homes and continue to pay the low rates.

This means the resale market will be starved of homes. In short, nobody wants to sell their homes and take on a new loan when they buy a new one. Therefore, we predicted that homebuilders will benefit from this trend as people turn from resale houses to new houses.

And in terms of business quality, these homebuilders are profitable and likely to continue so. Below are some of our holdings and their performance since our initial investments.

PulteGroup Up 90%

TopBuild Corp Up 84%

Installed Building Products Up 65%

I won't go into the whole portfolio here since all of you entrusted us to invest on your behalf. We do the homework for you and grow your funds well so we would like to keep that edge here. If any investors are curious about the full holding, you can view them at the online portal.

A Cautiously Bullish Approach

While we maintain our bullish outlook on the market, we approach the coming months with caution (maintaining the same outlook as the last investors' letter). 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 by 31 Dec.

Thank you for your continued partnership.

Regards,

Pete

investwithpete.co