

Fortunato Asset Management

Q4 2020 Newsletter



Strategy and Performance

Over the past couple of years as the market got increasingly frothy and we were unable to find many enticing investments in the U.S., we steadily increased our cash and cash equivalent position. Going into 2020, we maintained around 70% or more of our overall position in cash equivalents (T-bills, bank preferred stocks, gold, cash). When the covid lockdown crisis hit, we were able to sell T-bills and deploy much of this cash into shares of companies that either were declining rapidly or had already suffered massive declines due to panic and forced selling. We saw incredible values with huge margins of safety in shares of companies such as had not been available since the financial crisis. These types of opportunities only present themselves every 5 to 10 years.

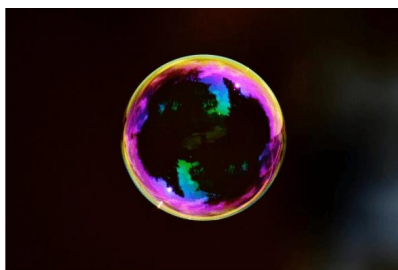
It was a chaotic, albeit fun year for us from an investment standpoint. The overwhelming majority of these investments have worked out exceptionally well for us. Fortunato 1 enjoyed returns of well over 40% before fees even with 25% cash equivalents. Our ultra conservative 6% goal strategy, Fortunato 3, produced returns of 17%.

Around the Market

As I write this there are nutty things happening in the financial world. Some Chinese stocks that are deemed too closely tied with the Chinese military are being delisted by NYSE. China Mobile is an example. Bitcoin is reaching \$40K per “coin.” Many of the stocks we purchased earlier in the year are up 100% to 300%. An \$10K purchase of Tesla shares on 03/20/20 is now worth \$110K. Inflation fears are evident in recent 30 basis point increases in 10-year treasury bond yields.

In a previous newsletter (Battle of the Trillions, fall 2020), I mentioned the correlation between asset prices (stock market, precious metals, real estate) with the trillions of dollars being pumped into the economy by the Federal government. That story is still preeminent in markets. I count \$6 to \$7 trillion dollars in new deposits on U.S. bank balance sheets that did not exist before the covid crisis. Yet, the government wants more stimulus – a lot more. Combined zero percent interest rates, money printing (bond buying) by the Fed, and fiscal stimulus from the Federal government, are rocket fuel for stocks and other asset prices.

Bubble Watch



Speculation is in the air. Many initial public offerings (IPOs) have seen enormous gains. The Nasdaq to NYSE daily volume ratio is at the highest point since 2001, residential real estate prices have been on a tear. It seems owners of greenbacks want to replace them with almost any asset. The word “frenzied” comes to mind.

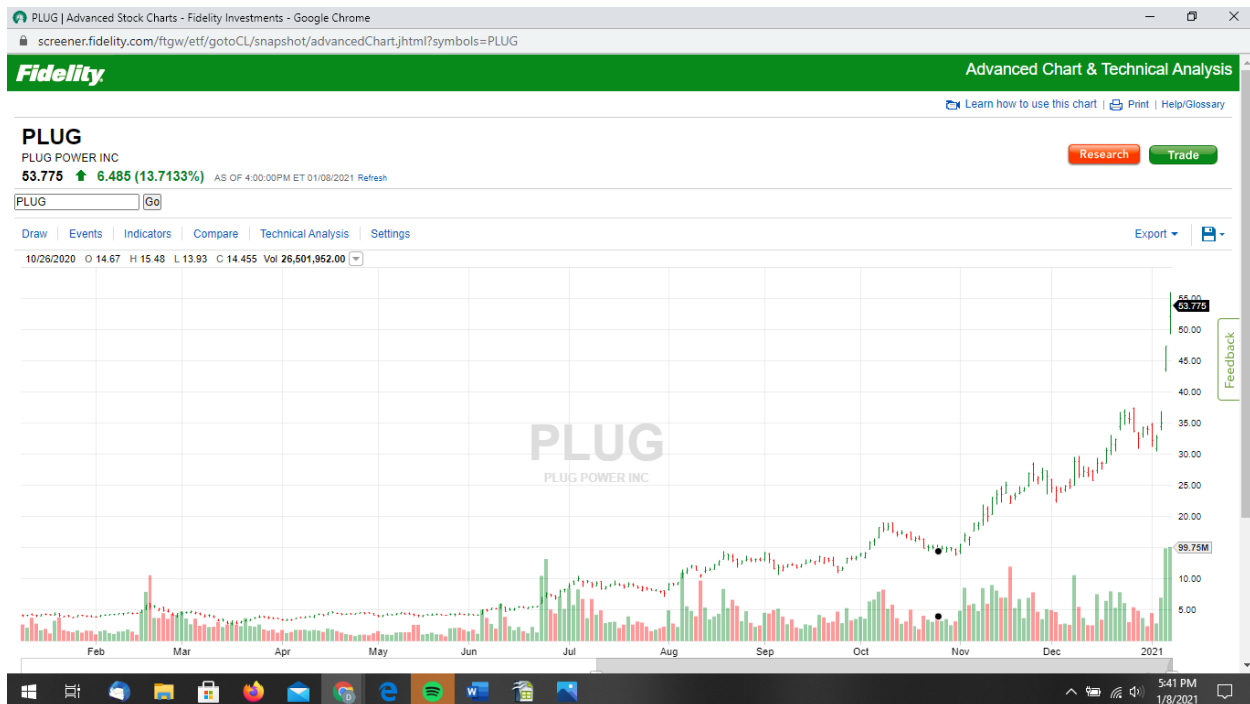
I don't want to get into the technical arguments of whether or not Bitcoin is really worth anything. What I will say is that it is one of the leaders in this latest bubble charge. Below the 1-year price chart:



Next Tesla's 1-year stock chart showing an 816% return over a year and recently looks more like a Space X rocket takeoff.



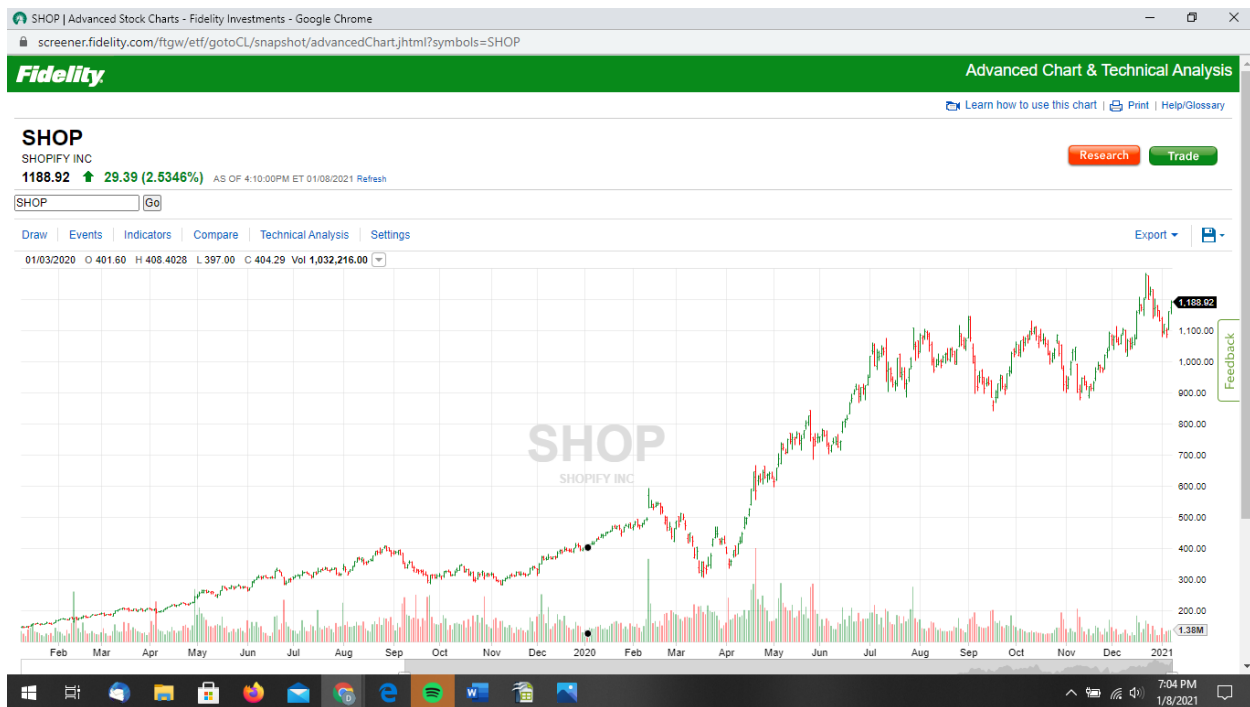
Next, Plug Power (PLUG), a hydrogen fuel cell systems maker selling for 43X sales, has increased 1,240% over the past year. This makes the 665% return from Fuel Cell Energy (FCEL) look paltry.



Chipotle, now \$1402 per share, may not be a bubble stock, but it is trading at 165X the past years earnings – a millennial favorite. Below, the 2-year stock price chart:



Software as a service (SAAS) companies have great business models. But at 46X sales, I think I'll pass on Shopify which has had a share price increase of 725% over two years.



Some companies that look like bubbles now may really take over the world and dominate industries 10 and 20 years down the road. Amazon is a former bubble stock that did take over an industry. It reached an interim peak of around \$110 a share on December 1st of 1999. 10 years later to the day it was priced around \$134. Not much of a ten-year return for even a successful bubble stock. Now it's \$1184 per share. Amazon is the rare company that lives up to the prophecy of taking over an industry and changing the world. Themes for current bubbles abound:

- Digital workout platforms will replace 50% of physical gyms, walking, running etc.
- Home sharing and renting will replace the hotel industry
- Video Conferencing will replace in person meetings and events
- Ride sharing services will eliminate the need for personal vehicles
- Marijuana will replace much of modern medicine as well as alcohol, and tobacco

-Digital currency will replace today's fiat currency's (dollar, euro)

The more we search, the more we see signs of a building bubble resulting from government money printing. Political shocks, disruptive geopolitical events, worries about the debt ceiling, covid lockdowns, even terrible earnings from companies; nothing seems to matter but zero percent interest rates, and Federal stimulus spending. If that ever reverses, watch out below...

Whether it be bitcoin or tulip bulbs, the South Sea Company or Peloton, we prefer to stay clear of manias and base our investments on companies with a sound fundamental margin of safety.

All this does not mean we are bailing on stocks. Today at Fortunato we are still finding value in some sectors, and specific companies, but compared to the spring and summer, the opportunities have tightened. In the spirit of the sagest advice, "buy fear, sell greed," we are becoming more cautious. We have begun liquidating some companies that have passed our near term and long term price targets.

Our Strategies, Fees, Costs and Alignment

If you would like to receive our quarterly and past performance reports send an e-mail to contacts@fortunatofunds.com and Brittany will add you to the list.

We manage separate accounts for clients by way of two fund strategies. The minimum investment is \$200K. We have a low expense, low fee, structure, with Fortunato paying all its own operational costs including audit, legal, accounting, administration, tax and filing fees. None are passed on to investors.

Below is a recap of each strategy and fee structure for Qualified Clients:

Fortunato 1 Growth and Value Strategy. Invests in a combination of reasonably priced growth stocks and value stocks. No Management Fee. The Performance Fee is 25% over a 6% per annum return with price breaks at \$1M and \$2M. On the first 6% return, no fee. Goal is a 14% average annual return over time.

(Note: Due to overlapping similarities in holdings and performance we have closed Fortunato 2 Concentrated Value Strategy for now).

Fortunato 3 Dividend and Income Strategy. Invests in a conservative mix of government short term bonds, mortgage-backed securities, dividend paying stocks, and preferred stocks. Fee is .55% of assets under management. The goal is a 6% average annual return over time.

I maintain a substantial portion of our family's savings in the Fortunato strategies, aligning my interests perfectly with investors. Many thanks to Brittany Rowland and Brian Jones for their valuable ongoing contributions to research, administration, and technology and thanks for reading!

=SD