



November 2022

Dear Limited Partner,

September lived up to its reputation as typically being the worst month of the year in terms of market performance. The S&P500 ended 3Q 2022 at 3,585.62, down (9.34%) from August 2022. Thus, the S&P500 ended 3Q 2022 down (24.77%) year-to-date. The current market drawdown is the longest we've experienced since the 2007-09 bear market. There is a litany of reasons for the torrid performance of the equity market ranging from inflation, war, an overzealous Fed and an overall global economic slowdown.

Signs of A Market Bottom

Given the resounding negativity in the financial media, it's difficult for most investors to think that the market will ever go up again. However, history has proven time and again that all bear markets end and eventually the market recovers all prior losses and goes on to new highs. Naturally, investors try to exit the market and get back in after the dust settles. Unfortunately, nobody can time the market with a reasonable degree of accuracy. As famed investor Bernard Baruch once said, "don't try to buy at the bottom and sell at the top. This can't be done—except by liars."

It's clear a lot of bad news has been priced into the market and my natural inclination as a value-oriented investor is that further downside is limited. However, the only thing certain about markets is that investor sentiment vacillates between the extremes of fear and greed. Although there are signs of fear in the market such as the elevated level of the VIX. It doesn't feel like we've reached the point of maximum pessimism and ultimately capitulation. In past bear markets, the VIX spiking above 45 has indicated extreme fear levels and signaled a bottom has been reached. In the current drawdown, the VIX has reached 35 and is hovering around the 30 level. However, we have yet to see a volatility climax that signals a market bottom.

The confusion among investors is also compounded by the belief that we're either in a recession or about to go into one. Rather than focus on the exact timing of the recession, it's more important to understand that the equity market will always bottom 3-6 months ahead of the economy. Again, it's important to stay invested as the market will begin rallying well before the economists give the green signal that the recession is over.

We continue to come across attractive investment opportunities and are opportunistically adding to our existing positions. Although I have no idea how the market will perform in the next 3-6 months, I'm certain it will be higher in a year and over the long-term (3-5 years).

Our Performance

The S&P500 has declined by (24.77%) year-to-date. In comparison, the Ashva Capital LP fund has declined only (22.79%) net of fees year-to-date. Although we've outperformed our benchmark index, it doesn't provide much consolation to us. We continue to find stocks at attractive valuation levels and

continue to add opportunistically to our existing positions. As the 3Q 2022 earnings season progresses, Technology companies are reporting weak results across the board that is causing significant declines in already depressed share prices. Our worst performing stock in the portfolio remains META, which is now down (70.5%) year-to-date. Although we had bought after the stock initially sold off, we are still down approximately (53%) in our position. Unfortunately, the damage done to the stock is largely self-inflicted. The company reported 3Q 2022 revenue of \$27.7 b, reflecting a (4%) yoy decline. Furthermore, management stated that the company would return to growth in the quarters ahead. The problem is that operating expenses increased to \$22 b, reflecting a 19% yoy increase. The vast majority of the spending is targeted at building out the core infrastructure for the company's metaverse business. Essentially the bear case is that Zuckerberg is going to fail and his vision of the metaverse will never come to fruition. In my view it's still too early to tell. The shares are exceptionally cheap and the core business of Facebook, Instagram and WhatsApp continues to be a FCF generating machine. I remember at the time of the WhatsApp acquisition, Zuckerberg was also heavily criticized. Although we're not adding to our position at current levels, we're comfortable holding on to our position. Our best performing position is BTI (British American Tobacco), which is up 6.4% year-to-date.

Clearly value stocks have outperformed growth stocks in 2022. It remains to be seen whether the outperformance continues. In our view, growth and value are simply labels. Our goal is to buy companies with strong growth prospects and competitive advantages at a reasonable price. The current market is making finding these types of companies easier as valuations were overstretched in 2020 and 2021. The stock market will inevitably recover, we just don't know the timing. As investors we must remain patient, and we'll ultimately be rewarded. As Peter Lynch famously said, "the key to making money in stocks is not to get scared out of them."

Sincerely,



Ankur Shah
Managing Member
Ashva Capital Management LLC

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