



April 2024

Dear Limited Partner,

The S&P500 just produced a 10.16% gain during the first quarter of 2024, ending at 5,254.35. This was the best first-quarter performance for the index since 2019. The strong performance of the equity market was largely due to the most highly anticipated recession in history, which, once again, failed to materialize.

For equity investors, the past three years have underscored **the challenges of market timing and the limitations of economic and stock market forecasts.**

Robert Greene, in his book, *The Laws of Human Nature*, states: “You like to imagine yourself in control of your fate, consciously planning the course of your life as best you can. However, you are often unaware of how deeply your emotions dominate you. They make you veer toward ideas that soothe your ego. They make you look for evidence that confirms what you already want to believe. They make you see what you want to see, depending on your mood, and this disconnect from reality is the source of the bad decisions and negative patterns that haunt your life.”

As an investor, your own human nature will be the cause of your failure. You have to actively remove emotions from your analysis and focus on rationality above all else. Bubbles and busts continue to happen in financial markets because human participants cycle through periods of greed and fear. Maybe once AI takes over completely, we’ll no longer be susceptible to the vagaries of the market, but I think we’ll have bigger issues to deal with than market returns in that scenario.

On January 3, 2022, after one of the longest bull markets on record, the S&P500 peaked at 4,796.6. Subsequently, a 25% decline followed, with the market bottoming in October 2022. The S&P500 declined in 2022 for several compelling reasons, including the highest rate of inflation in decades, a series of sharp interest rate hikes by the Fed, and a war in Ukraine. Despite the predictions of a slowdown or even an outright recession, the S&P500 now sits at 5,200 as I write this letter.

As an investor, you have to accept the fact that neither the stock market nor the economy can be forecasted with any degree of accuracy. This rational belief is the **first step in devising an active investing strategy that has any chance of successfully beating an index.**

The Great Escape: Understanding the US Economy’s Recession-Free Run in 2022 and 2023

It’s clear that despite the forecasts of numerous economists, investors, and market pundits, we successfully avoided a recession in 2022 and 2023. Most notably, a glaring misjudgment came from the team at Bloomberg Economics, who, in October 2022, predicted a 100% probability of a US recession within 12 months.

Furthermore, the Fed seems to have pulled off a soft landing, akin to a “Miracle on Wall Street.” Warren Buffett famously advises to ‘never bet against America.’ **But I would amend that to ‘never bet against**

the American consumer. With consumption now accounting for two-thirds of the US economy, it's fair to say that the trajectory of the US economy mirrors that of its consumers.

The strength of the US economy has perplexed investors, analysts, and economists alike. While many have tried to emulate George Soros and incorporate macro analysis into their stock research, **we've opted for a different approach: a bottom-up analysis.** Our focus has been on identifying undervalued stocks where sell-side analysts were overly pessimistic about a company's prospects.

As the US economy continued to flourish, these overly bearish analysts were compelled to revise their earnings estimates upwards, resulting in favorable re-ratings for many of our core holdings. Consequently, **our portfolio significantly outperformed the S&P500 in Q1 2024.**

Our Performance

During Q1 2024, the S&P500 experienced a notable rise of 10.16%. In contrast, **the Ashva Capital LP fund achieved a substantial increase of 16.53%**, net of fees. I am confident in our current positions.

Overall, our investment strategy, characterized by our QARP ("Quality at a Reasonable Price") investment approach, has **consistently delivered strong results over the long term** and across various market conditions. This strategy focuses on investing in well-managed businesses with competitive advantages, robust free cash flow generation, and attractive valuations.

Sincerely,



Ankur Shah
Managing Member
Ashva Capital Management LLC

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