

# Comus Investment, LLC

	<u>Comus Gross</u>	<u>Comus Net</u>	<u>S&amp;P 500</u>	<u>Russell 2000</u>	<u>MSCI EAFE Small-Cap</u>
2016*	32.60%	30.87%	12.26%	22.77%	1.55%
2017	36.03%	33.50%	20.17%	14.65%	33.50%
2018	-4.47%	-6.99%	-4.39%	-11.01%	-17.58%
2019	11.17%	8.65%	31.48%	25.52%	25.47%
2020	10.33%	7.81%	18.40%	19.93%	11.69%
2021	18.87%	16.35%	28.71%	14.78%	18.67%
2022	-17.83%	-18.93%	-19.11%	-22.55%	-23.92%
Cumulative	106.44%	79.66%	109.05%	67.62%	41.37%
Annualized	12.29%	9.83%	12.52%	8.62%	5.70%

\*April 1<sup>st</sup> – Dec 31<sup>st</sup>, 2016

The compounded performance figures represent all realized and unrealized losses and gains in the firm's brokerage account after commissions and on a currency-adjusted basis over the specified period, as recorded by InteractiveBrokers. Index returns represent total return including dividends.

Dear Partners,

July 3rd, 2022

In the second quarter of 2022, our investments experienced a total return of -7.93% before fees and -8.56% after fees, versus -16.10% for the S&P 500 index. At this point, you will have received reports with the details on your balance, fees, holdings, and performance from InteractiveBrokers for the past quarter.

Nearly the entire loss for the quarter came from the continued weakening of the Japanese Yen, which declined another 10% versus the USD to a 24-year low. The widening interest rate disparity between the two countries is the primary factor for this move, as Japanese bonds at historically low interest rates become less attractive by the day, while the U.S. Fed continues to aggressively raise rates to combat inflation. There should eventually be equilibrium, hopefully at a more favorable JPY exchange rate, driven by potentially lower demand for U.S. equities, and more importantly in the long-term, the substantially lower price of Japanese goods, services, labor and real-estate in USD terms, which could provide foreign investment in the region if the currency weakness continues. Hopefully this will deliver a tailwind in the future for us.

Some of our beaten down manufacturers and retailers are beginning to show signs of life after the years-long trade war and pandemic, during which many generated their first recorded and sustained operating losses. The restrictions in our regions are beginning to ease up, long after those in much of the West were lifted. Hong Kong's nightmarish first quarter lockdowns and travel restrictions are ending, and Japan is only now beginning to allow some tourists to enter for the first time since the pandemic began. Conditions have been hellish for the type of company we own, and most industries have experienced sharply rising costs of goods due to supply chain issues, along with the severe demand shock. Many have faced these unprecedented challenges with resilience, while often retaining employee numbers. The public pricing of these companies is often near pandemic lows, while uncertainty and risk have diminished, making for better opportunity. We remain heavily exposed to a full-reopening and normalization of both demand and supply conditions.

A peculiarity of investment compared to other industries is that there are no experts. No single person or entity can know the best course of action, and there is no common knowledge about current circumstances which can be agreed to or acted upon with certainty. Whether they care to realize it or not, every investor is surrounded by immutable uncertainty. While reasonable investors attempt to reduce uncertainty whenever possible, the common practice of placing heavy bets on a small group of possible outcomes, with the confidence in one's mind that these specific outcomes will occur at a vastly higher rate than alternatives, is in my opinion a popular recipe for overpayment and loss.

While we all have our (potentially) informed opinions, we should attempt to accept rather than eradicate uncertainty. The fog can never be removed despite our best beliefs and intentions, so we must acknowledge its existence and operate within it. One's opinion on the likelihood of an outcome occurring rarely coincides with its actual likelihood. Instead of sorting our best ideas and going for those in which we declare the highest confidence and amount of research behind

some estimate of intrinsic value, we should accept that we will frequently be incorrect, regardless of confidence levels; and on the flipside, we will often experience favorable outcomes where we least expect them to occur, and where they might be unpredictable to us. To achieve a profit, we must demand a substantial potential reward from a group of investments/ potential outcomes, given their unpredictability, and given the likelihood that we can't determine which is best with any certainty, as well as the possibility that our predictive powers are no better than average. Potential returns often come from skewed pricing rather than better predictive abilities. There are computers which can predict the outcomes of repeated events in controlled settings such as horse-racing or sports with some precision, but it's more complex when the variables that affect outcomes are constantly changing. We benefit from substantial asset-backing in nearly every case, but earnings are frequently the driver of asset prices, and there is always cyclical and unpredictable change, which is why we bet on financial gravity.

What people consider unlikely is often probable instead, given a certain environment and group of factors, though it might be unpredictable to us humans. This frame of mind isn't appealing to many because it appears like complete chaos, but that's just reality. Using this logic, we are generally exposed to outcomes most markets price as remote- such as our retail stocks once again generating the profitability they did prior to covid, for example. Generally, we benefit from sharp periods of rapid, unexpected change.

This line of reasoning helps explain the current equities meltdown. No need to discuss cryptocurrency, being the largest game of musical chairs in history. Simply, with rising prices feeding beliefs, confidence that various companies and industries are certain to succeed has also risen in the recent past. To their detriment, investors are generally informed by prices, however fickle they may be. As prices rise, so do the results companies have to meet, and the margin of error evaporates. This while the Fed reduces liquidity to stocks, and increases return requirements with higher interest rates. When there is no margin of error, and current outcomes conflict with popular beliefs, prices must rapidly change to incorporate reality. Though many smaller stocks have tumbled, the largest six remain, and they will determine the future of U.S. returns. If there is any cyclical to their results, they will experience a similar fate.

As always, feel free to contact me at any time with questions, comments or concerns.

Best,  
Aaron J. Saunders  
Owner & Manager, Comus Investment, LLC.  
asaunders@comusinvestment.com