

# 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	-9.73%	-12.25%	-18.11%	-20.47%	-21.24%
Cumulative	126.79%	94.33%	111.63%	72.13%	46.35%
Annualized	12.89%	10.34%	11.74%	8.38%	5.80%

\*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,

January 3rd, 2023

In the fourth quarter of 2022, our investments experienced a total return of 12.23% before fees and 11.60% after fees, versus 7.56% for the S&P 500 index. For the year, we were down 12.25% vs 18.11% for the S&P 500. At this point, you will have received reports with the details on your balance, fees, holdings, and performance from InteractiveBrokers for the past quarter.

Holding mostly Hong-Kong stocks, we just endured a local drawdown similar in magnitude to the 2008 financial crisis, with the Hang Seng index down 52% since early 2021 at its recent October low. Following the CCP congress, many investors deemed the region entirely uninvestable, soon after which sentiment and pricing improved since it couldn't get worse. I can understand their aversion, but trade with the world's second largest economy won't soon cease, and China retains a 30% global share in manufacturing output, with approximately a third of those goods exported on behalf of foreign affiliates operating there. Despite the recent tumult and unfortunate political events which have occurred, Hong Kong will likely remain a hub for regional listings and exchange. Local covid restrictions are finally unraveling, and companies stung by them have recovery potential. The Japanese Yen has also strengthened since it hit a 30-year low this October, improving most of our remaining holdings besides a few Singaporean companies. These significant headwinds we faced the past few years should continue to ease, to our benefit.

Our situation remains incomparable to American stocks, which trade at early 2021 prices, and are by no means an attractive deal, particularly as interest rates rise. Many investors see the slight dip from record highs as an opportunity to put money to work, but as a believer in long-term cyclicity, I think change of substantial magnitude unfolds over many years. The risk remains of disappointing earnings over time, lower valuations and lackluster returns. Stocks can tread water for years or decades, and markets don't become attractive until most investors stop believing they are. Interest in stocks must fade for opportunity to arise. When investors once again consider 10% per annum a remarkable achievement, as it is for indices, then cost-averaging into a diversified group of stocks will become wiser than it has recently been, with everyone clamoring to do the same on every dip.

The only companies I truly believe in are the biggest recent losers. Not only are the potential rewards greater in the event of an improvement in corporate performance, but in my opinion, on average, the likelihood of improvement is also much higher for those doing poorly relative to what they have previously achieved. This excludes companies without any past indication or future potential of profit such as the broken IPO-bubble stocks littered throughout popular markets, rather than the industrials and cyclicals we own, which are generally profitable through the cycle. Most of them have bad stretches for years on end, and when investors lose all interest is when they finally become interesting. The current paradigm dictates that the purchase of quality companies at a reasonable price ensures exceptional returns, and although some managers are certainly adept at this approach, the empirical support in its favor is scant, as nearly all companies experience cyclicity and fleeting profitability over long time horizons.

Although I recently assured you we'd experience greater volatility than indices as we frequently own the smallest public companies, for the year and since inception our volatility is markedly lower. The MSCI EAFE Small-Cap index, which is a comparable benchmark with high Japanese exposure, was down over 30% in late September without any HK/Chinese holdings, for example. I don't guarantee this is a permanent feature of ours, but with the number of companies we have held, it is unlikely a result of luck. As a predominantly Asian-focused firm, it's standard-practice to assess performance vs Asian indices, otherwise the year-by-year comparisons make little sense, but the S&P 500 remains the primary opportunity cost for Americans and will be included.

As a sidenote, it's difficult to find Asian indices/funds with meaningful and diversified Japanese, Hong-Kong, and Singaporean exposure with which to compare us. Japan is usually excluded as an advanced economy and kept on its own or in generic international/global funds. Most of the Asia ex-Japan indices have large chunks of mainland Chinese exposure and much smaller portions of everything else, which I also dislike. Vanguard and iShares both have Pacific funds with Japanese, Australian, Korean, Hong Kong and Singaporean shares, but in both cases the proportions are 60% Japan, 20% Australia, and 20% other. Fidelity's Pacific Basin Fund has reasonable geographic diversity but with heavy mega-cap exposure. Many passive investors buy wide-ranging indices such as Vanguard's Total International Index, which has a median market cap of \$30b, so primarily large/mega caps. Their international small-cap index has a median cap of around \$2b, much larger than the companies we currently own, with little exposure to the cheaper countries. Otherwise, one would buy country-specific indices which is tedious and would include a grab-bag of mostly large-cap stocks.

As always, feel free to contact me with any questions or comments you have.

Best,

Aaron J. Saunders

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