

"Our focus, trust"

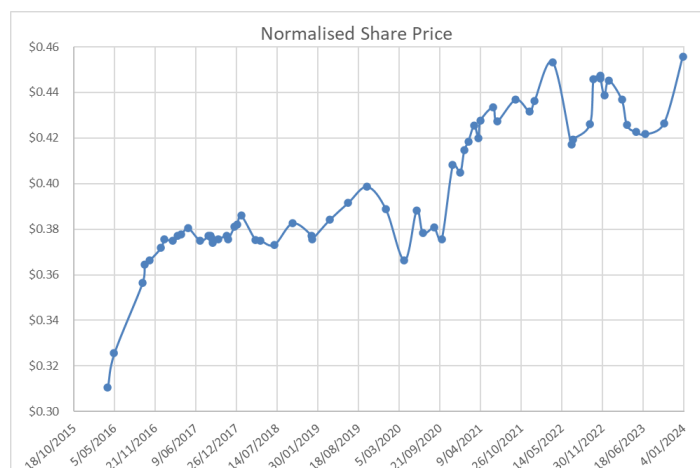
"Accounting for every trade"

Investment Performance of Deployed Capital

Auduco Pty Ltd's current investment position and normalised share price are summarised in the table and figure below.

31-Dec-23 Snapshot		
Top 4 Equity Holdings	Ave Entry Price	Market Price
ANZ	\$23.43	\$25.92 (Q1 perf: \$0.26)
BOQ	\$7.96	\$6.08 (Q3 perf: \$0.34)
NAB	\$19.01	\$30.70 (Q4 perf: \$1.63)
WBC	\$20.94	\$22.90 (Q4 perf: \$1.75)
Current Market Value		
FY24 Dividends		
FY24 Interest [#]		
Cash Holdings		

Note #: Does not include interest currently being accrued in term deposit accounts.



Whilst the quarter commenced in with a continuance of the corrective trend we illustrated in the previous update, it ended with a roar. Per the below chart, the local XJO underperformed international counterparts, but it still did well.

Our normalised share price was up for the quarter, much higher than anticipated. We spent much of the period feeling we missed a few opportunities, having experienced several unfortunate

whipsaws, yet it rose sharply to the highest on record. It was a nice consequence of the underlying strategy working. Naturally, most of our holdings rose with the markets. Our largest capital holdings performed the best. Other factors behind the performance were dividend payments received and term deposit maturities that realised improved rates of return. We accumulated some more WBC and BOQ at the lows and dividend payout ratios increased again, albeit less than on previous occasions.



Synopsis

The news pieces that precipitated the market surge were ques on the future rate decisions by the US Federal Reserve. Initially, on 14-Nov the US markets recorded a significant daily increase (the best in 7 months) on the back of a soft inflation print for October.¹ CPI was flat month on month and down to 3.2% year on year (it peaked at 9.1% in Jun 2022). The market's takeaway was the indication the federal reserve should be finished with its rate raising cycle. Investment banks concurrently began making calls of expectations of recession and multiple rate cuts.² The Fed then confirmed a possible end to the rate rise cycle at the 14-Dec FOMC meeting, resulting in, despite raising rates on the day, stocks and commodities going on a tear.³

Recall from our Q4 FY2022 update and prior that inflation rises were abating and central banks were going too far with their increases. It obviously hurt mortgage holders, along with inflation, which still appears to be being felt by Main Street.⁴ Our reporting was critical of the Australian Central Bank then. Recently, Joseph Stiglitz has echoed notions we communicated, that the inflation of recent years was due to supply constraints and similarly criticised the US Fed.⁵

¹ S&P 500 notches best day since April, Dow leaps nearly 500 points on soft inflation report: Live updates, CNBC, <https://www.cnbc.com/2023/11/13/stock-market-today-live-updates.html>

² Big aggressive rate cuts coming within months, say UBS, Morgan Stanley, Investment News, <https://www.investmentnews.com/regulation-and-legislation/news/big-aggressive-rate-cuts-coming-within-months-say-ubs-morgan-stanley-245684>

³ Full recap of the Fed's rate hike and Chair Powell's news conference, CNBC, <https://www.cnbc.com/2022/12/14/live-updates-fed-rate-hike-december.html>

⁴ 'Bleak' new report shows country's top CFOs worried about economic outlook, News.com.au, <https://www.news.com.au/finance/economy/bleak-new-report-shows-countrys-top-cfos-worried-about-economic-outlook/news-story/05856d6473063cacc1cbb9e49c26f51d>

⁵ 'Really bad economics': Nobel laureate Joseph Stiglitz explains where the Fed went wrong on inflation, CNBC, <https://www.cnbc.com/2023/09/01/bad-economics-stiglitz-explains-how-the-fed-went-wrong-on-inflation.html>

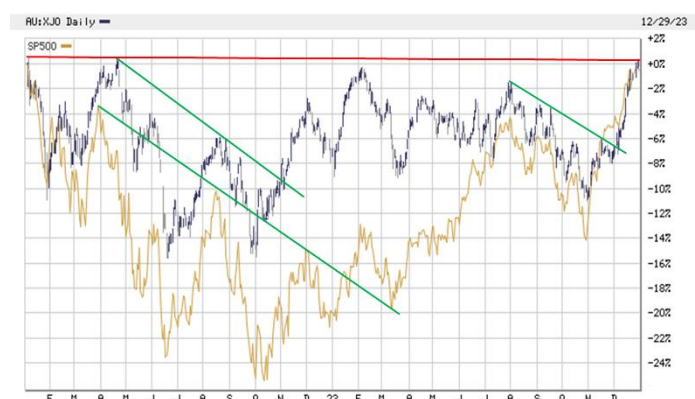
But recessions have not yet occurred. The US economy is expanding healthily; the 4.9% real annual GDP measure reported in October was well above expectations.⁶ This has been against consensus expectations, with one US analysis piece putting it down to consumer spending, supported by Jobs, savings and actual/effective mortgage rates being lower than the 30-year fixed mortgage rate (for the US).⁷ This may result in the Fed at least keeping rates where they are for the time being. Despite consensus predictions otherwise.²

Regarding the markets themselves, indices have pushed up and touched the high of 2 years ago (January 2022), the point of resistance that, according to Dow Theory, will signify the end of the correction once it is surpassed. See below for the updated view on that – 2 charts: snapshot at previous update vs now.

Chart from previous update (Q1 FY24):



Updated chart:



In terms of the news that catalysed the recent run to the January 2022 high, it was not the GDP news. It was the US Fed's signal regarding rates.

As usual, news also came out that contradicts the theme, with the now published, Fed minutes indicating the committee were not all agreed on reducing rates and remain open to raising them further if needed.⁸

Seeing we are flagging contradictions, US fiscal debt has now exceeded \$34 trillion.⁹ The US is now borrowing money to pay debt and, within 10 years, it will be spending more on interest payments than it traditionally has on research and development, infrastructure and education combined.¹⁰ As debt spirals, the Fed will be forced to lower and keep rates suppressed. But that is a problem for a few years down the track. However, it is of note because its acceleration is now being noticed by mainstream media after having taken only 3 months to jump \$1 trillion. It also follows shortly after Ray Dalio called it out as being close to the inflection point, beyond which it will get out of hand.¹¹

Assuming the consensus institutional call prevails, and rates start coming down in the US, it is not expected to be the same for Australia.¹² The Australian CPI has taken longer to commence reducing and has not reduced proportionally with other countries. Australia also tends to maintain a higher cash rate than the US, but in the present environment it is the opposite. Furthermore, the Australian Federal government is gearing its policy to drive wage inflation and has been criticised for not doing enough to reduce spending. So the consensus at the moment is for the RBA to take longer to reduce rates. Possibly, September 2024 at the earliest. However, Australian company executives, according to Deloitte, see things as a little bleakly with 43% of CFOs pessimistic on economy and only 14% thinking now is a good time to take on fiscal risk.⁴

From our perspective, price is at resistance (and at the time of writing has corrected slightly since the snapshot). But if price surpasses the January 2022 watershed and proves not to be a false break, then we have another bullish run on our hands.

Rounding out the analysis with the semi-usual Buffett Indicator snapshot¹³ below, this time with two versions of it. It continues to indicate an overvalued state:

⁶ By the Numbers: Third Quarter Economic Growth Exceeds Expectations, US Department of Commerce, <https://www.commerce.gov/news/blog/2023/10/numbers-third-quarter-economic-growth-exceeds-expectations#>

⁷ Why the most widely anticipated recession in history never came, Yahoo Finance, <https://finance.yahoo.com/news/why-the-most-widely-anticipated-recession-in-history-never-came-155724207.html>

⁸ Fed officials in December saw rate cuts likely, but path highly uncertain, minutes show, CNBC, <https://www.cnbc.com/2024/01/03/fed-minutes-december-2023-.html>

⁹ U.S. Treasury Fiscal Data, Treasury Department, <https://fiscaldata.treasury.gov/americas-finance-guide/national-debt/>

¹⁰ US national debt hits record \$34 trillion, CNN, <https://edition.cnn.com/2024/01/03/economy/us-national-debt-34-trillion/index.html>

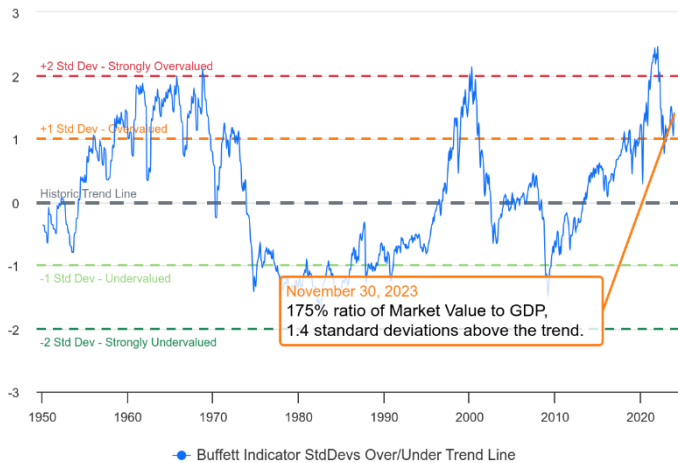
¹¹ Ray Dalio says U.S. reaching an inflection point where the debt problem quickly gets even worse, CNBC, <https://www.cnbc.com/2023/11/17/ray-dalio-says-us-reaching-a-point-where-our-debt-problem-gets-even-worse.html>

¹² This is not America: rates are not coming down in 2024, Australian Financial Review, <https://www.afr.com/policy/economy/this-is-not-america-rates-are-not-coming-down-in-2024-20240103-p5euv6>

¹³ The Buffett Indicator, Current Market Valuation, <https://www.currentmarketvaluation.com/models/buffett-indicator.php>

Buffett Indicator: # Standard Deviations from Historic Trend Line

www.currentmarketvaluation.com



US Buffett Indicator Ratio w/Std Dev Bands

www.currentmarketvaluation.com



System Update

A small update on the system. We are observing shifts in statistical outcomes. Summary data for the year indicated that the statistical sweet spot for holding trades is 3 weeks in 2023. Beyond this point gains tend to be slower. This is interesting as ~ 10 years ago the optimal holding period was between 6 – 12 weeks. This could simply be a function of 2023 not being a trending market. It was a choppy year, but one with tradeable trends. Nonetheless, there is one quirk with the data. The algorithm signals rely on a trend breaks for individual stocks, and this usually occurs coincident with overall market trends. But this coincidence with market trends is not checked for – it is a manual step. As such, the data aggregation performed to compile the summary statistics does not discern for this. Yet ensuring the market is in an appropriate trend is a step we undertake to taking actual trades. What this means is, despite the data being very positive, it may be sub-optimal.

Regardless, 2023 summary data for all commodity signals is shown in the graphic below, indicating 3 weeks to be about as long as positions should be held on average.

Commodities

2023

Number of Signals:
332

Profits within N weeks after each signal



In terms of the system's alerts being provided as a service, we are progressing to going live. The company is now registered and the production environment is currently being configured. We will be looking for interface testers soon.

Until next time....

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