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Investment Results	Full Year 2019	Full Year 2020	Year-To-Date 2021	Since Inception[1]
LVS Growth Portfolio (net of fees)	**-**	**61.8%**	**12.0%**	**81.2%**
Benchmark: S&P 500 Total Return Index	-	*16.3%*	*21.6%*	*41.3%*
LVS Defensive Portfolio (net of fees)	**7.0%**	**13.2%**	**8.7%**	**31.7%**
Benchmark: Barclays High-Yield Bond Index	*13.4%*	*5.0%*	*1.6%*	*20.9%*

Note: investment performance is presented net of all fees and expenses. Investment results are as of November 30, 2021.
(1) LVS Defensive was incepted on January 1, 2019. LVS Growth was incepted on January 1, 2020.

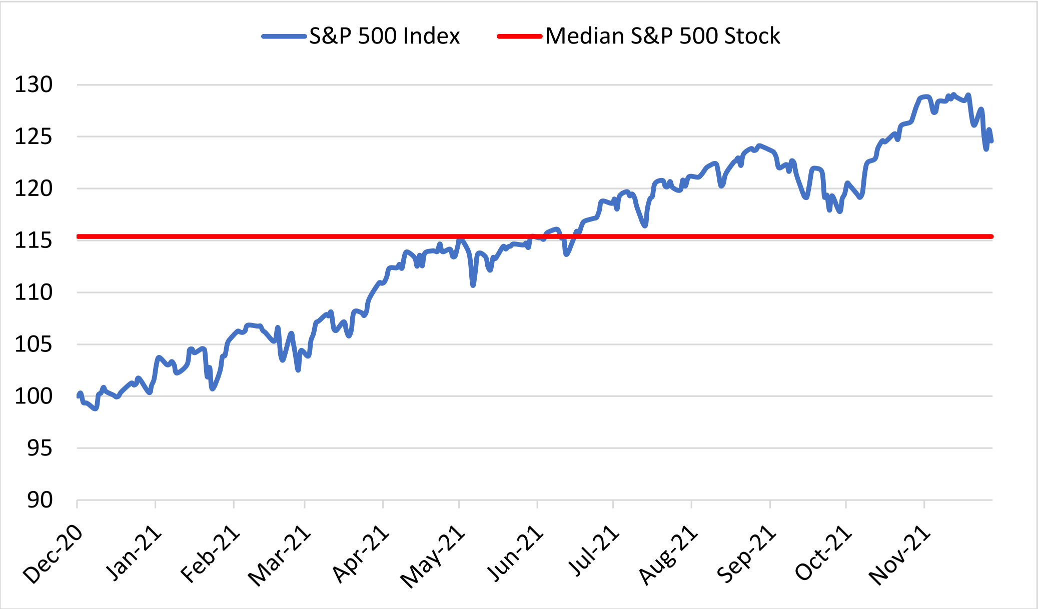
December 14, 2021

Dear Investors,

Several weeks ago, my friend Bill Brewster commented "It's a bear market. Some people just don't know it yet." This may seem like an odd comment to make given that the US stock market is within reach of record levels; however, I believe the comment may have proven to be prescient.

The phantom bear market

While the stock market index is within reach of its high watermark, the index is masking quite a bit of violence beneath the surface. As of the first week of December, the S&P 500 index was down approximately 4% from its high value but of the 500 companies that constitute the index, 438 (88% of total) were off more than 4% and the median stock was down 10.6% from its 52-week high (source: Capital IQ). Furthermore, 208 companies in the S&P 500 were at 52-week lows which is the greatest number since March 2020 (Source: Wall St. Journal).



The stats look even worse for small cap stocks. The small cap index (Russell 2000) was down a little more than 12% from its 52-week high and the median stock was down 27.8% (source: Capital IQ as of 12/2/2021). This is reminiscent of the dispersion between small and large stocks that occurred last summer discussed in our May 2020 letter. In that letter, I argued that the stock market was cheaper than it looked because on average stocks were still trading at depressed levels despite a select group of larger companies pulling up the index – there are similar mechanics at play today although the set-up is a bit different.

The phenomenon where the largest companies mask the performance of the average public company is due to the way the stock indices are constructed. The larger a company, the greater its weight in the index. The 10 largest companies (predominantly big tech companies) account for 30% of the total weight of the S&P 500. The largest 50 companies (top 10%) account for 55% of the S&P 500's value. This means the remaining 90% of companies have less than half the influence on the trading behavior of the overall index.

Hedge fund manager Gavin Baker illustrated the math by noting that the Nasdaq was up approximately 21% for the year as of 12/9/21, but if you exclude Google, Apple, Microsoft, Tesla, and Nvidia, the index was only up 5.8% (source: Gavin Baker on Twitter).

Outside of the top performers, the market is starting to show potential buying opportunities. Many high-quality blue-chip companies including PayPal and Disney have seen their stock fall significantly below their 52 week high.

Company	Discount Below 52-Week High
Visa (NYSE:V)	-22%
FedEx (NYSE:FDX)	-25%
Disney (NYSE:DIS)	-28%
Boeing (NYSE:BA)	-29%
PayPal (NASDAQ:PYPL)	-41%
Twitter (NYSE:TWTR)	-48%

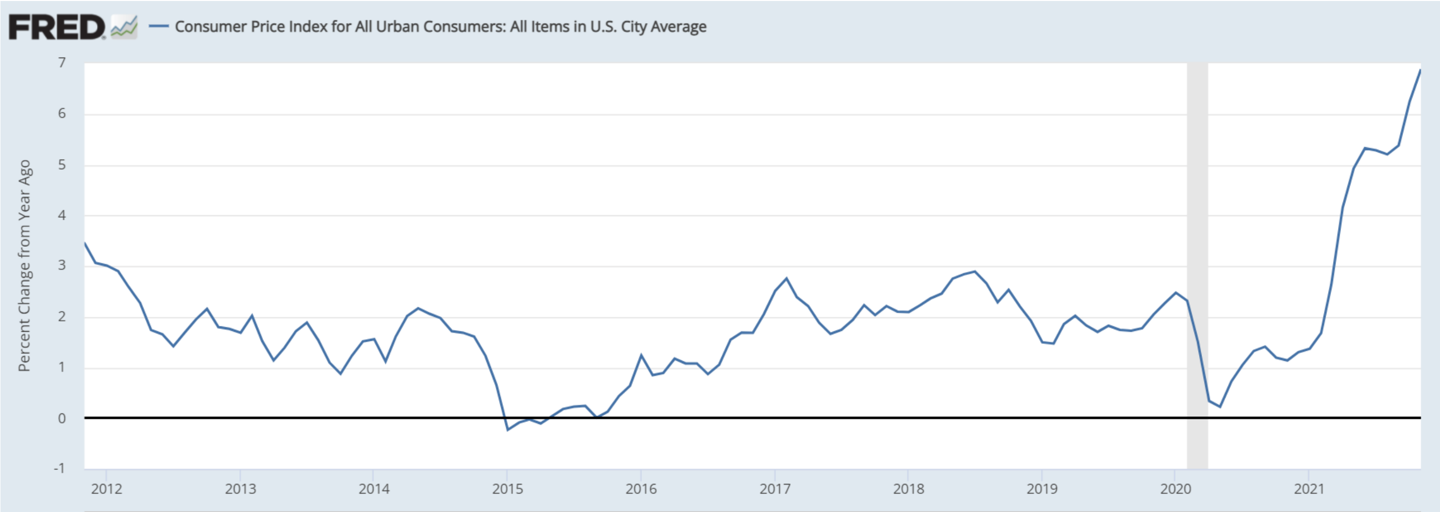
Source: Capital IQ as of 12/3/2021.

The inflation menace

There is good reason for the recent share price volatility. During 2020, several tailwinds in the form of low interest rates and government stimulus supported the economy and asset prices. In 2021, many of these tailwinds have dissipated and now the economy must deal with an imbalanced economic re-opening, supply chain issues, and rising inflation.

The economic issues are complex and inter-related but to over-simplify: governments flooded the system with cash to prevent the bottom from falling out of the economy. The pandemic has dragged on longer than initially estimated and some regions remain under rolling lockdowns while others are closer to fully re-opened. A combination of un-reliable global supply chains (due to regional lockdowns), an inability easily to re-hire workers, and healthy demand from a consumer still flush with cash, has led to demand outstripping supply across many categories of goods and services, resulting in price inflation.

In the years preceding the pandemic, price inflation as measured by the Consumer Price Index (CPI) has ranged between 1% - 3% per year. However, according to the most recent CPI reading, the rate of inflation has accelerated to nearly a nearly 7% year-over-year increase.



Source: Federal Reserve Bank of St. Louis.

There is a healthy debate over whether the inflation we are experiencing today is a temporary effect caused by the pandemic or if inflation is here to stay. However, it is undeniable that inflation in the short-term is bad for the economy because higher prices will curb spending. High inflation could also lead to higher interest rates which would be a negative for financial asset values.

Until recently the Federal Reserve has not been bothered by the elevated level of inflation, but that changed at the end of November when the Federal Reserve Chairman Jerome Powell signaled that the central bank would move to a less accommodative monetary policy to curb the rising level of inflation (source: Bloomberg).

In 2018, the Federal Reserve adopted a hawkish policy which led to raising interest rates 4 times from 1.5% to 2.5% while signaling additional rate rises beyond 2018. The stock market reacted by crashing 20% in the span of 4 months at the end of 2018. Taking its cues from the financial markets, the Fed did not raise rates further and the stock market recovered quickly.

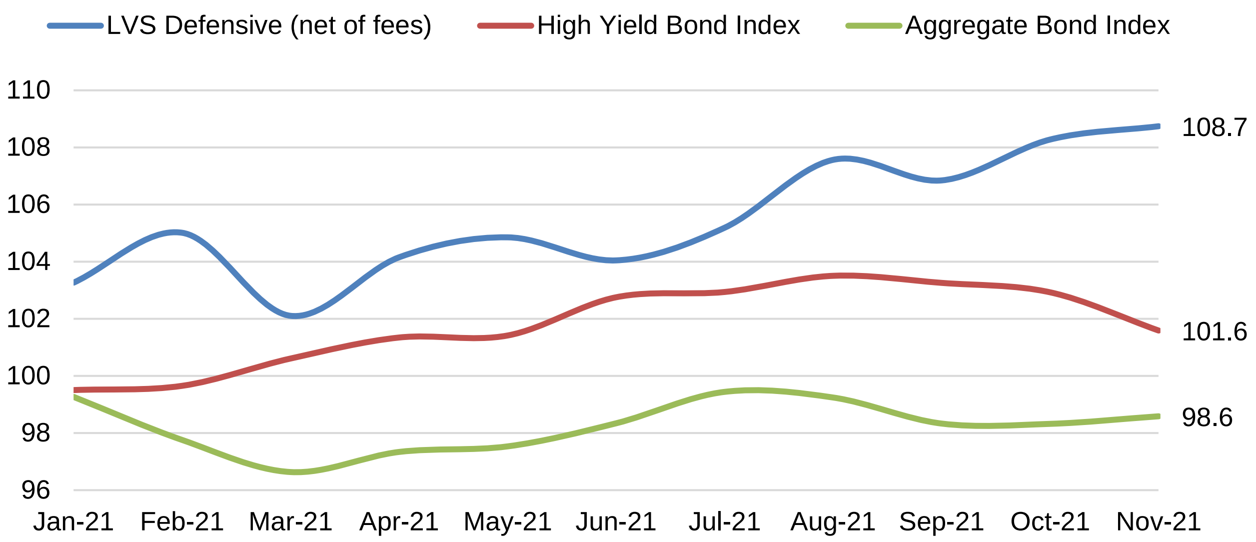
In 2018/2019, inflation wasn't an acute problem like it is today, so it is increasingly likely that the Fed will need to follow through on increases to benchmark interest rates and may not have the grounding to ease up unless the CPI data quickly cools off.

Performance update and positioning heading into 2022

Normally, I begin investor letters with a quick performance update, but I wanted to provide the above context to help frame the discussion.

The notable highlight this year has been the LVS Defensive strategy which aims to compound at a steady high-single to low-double digit rate by investing in event-driven stocks with high probability outcomes. I view the defensive strategy as having a similar risk/reward profile as a high-yield bond index and benchmark it against the Bloomberg High Yield Bond Index (seen below).

In an inflationary environment with the prospect of rising rates and economic volatility, bond market investments have not performed well. However, the Defensive strategy has proved resilient. I expect the Defensive Strategy to continue to post strong results in the coming year, even in the face of a challenging economic backdrop.



The LVS Growth strategy had a very strong first half following exceptional performance seen in 2020. However, the Growth strategy has taken a step back during the second half of the year. This under-performance was most acute in November during the broader market sell-off described above but there was also an impact from a few idiosyncratic bets.

Unlike the Defensive strategy, the near-term outlook for the Growth strategy is uncertain and will depend on market factors to a greater degree. Over the medium to long-term (read: 3+ years), I remain very bullish on our Growth portfolio which is invested in 15-20 high quality and growing businesses. I have always positioned the Growth portfolio as a "higher-risk, higher-reward strategy" and these past 2 years have demonstrated what that means in practice. From inception to July 2021 the Growth strategy returned 114% net of all fees and expenses. The strategy is now in a 20% drawdown from the peak and could draw down further with the market, but this volatility is the price investors must often pay in the short-term to out-perform over the long-term.

At the same time, there are now many interesting buying opportunities in our universe of 'global high quality growth". We are enthusiastically turning over rocks to take advantage of the price volatility.

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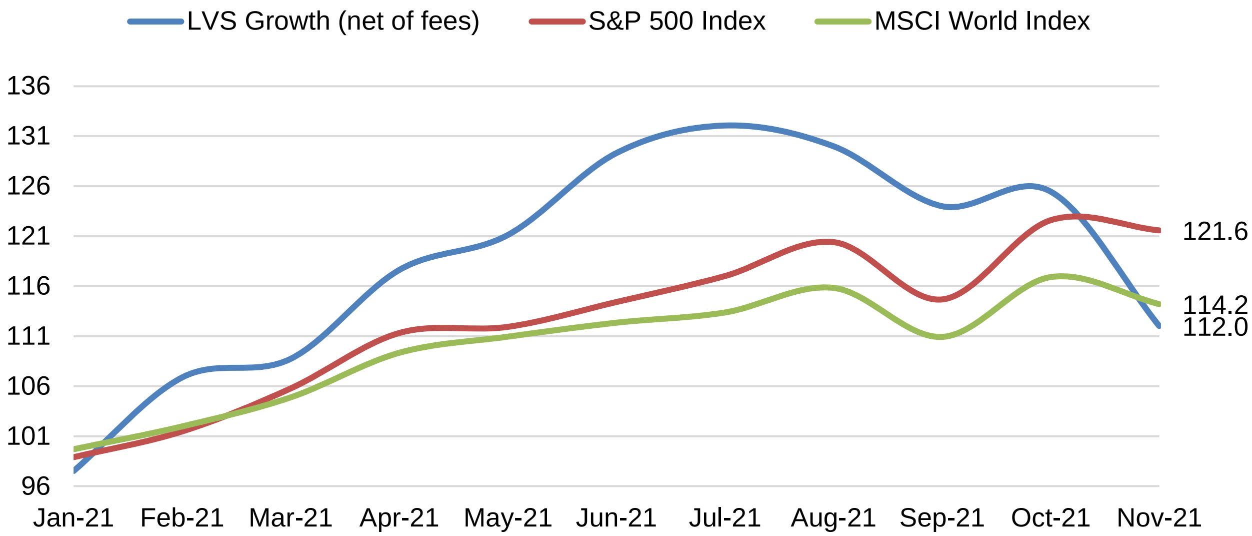

A personal update

I am pleased to share that in October I became a father to a healthy baby boy. Mom is doing great as well. A friend pointed out that the current generation is known as “Generation Alpha” – alpha is a term with special meaning in the investment context. I am hopeful the good fortune from generation alpha will rub off on our investment partnership in the coming years.

Best regards,

Luis V. Sanchez CFA

ABOUT LVS ADVISORY

LVS Advisory is a full-service financial advisory firm providing active investment management, financial planning, and institutional investment research services for individuals, families, and institutions. Luis V. Sanchez CFA is the Founder and Managing Partner of LVS Advisory. Luis' professional experience includes working in investment banking, consulting, and investment management. Luis is a licensed Investment Adviser Representative and a CFA Charterholder. LVS Advisory LLC is a Registered Investment Adviser based in New York City.

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