LVS ADVISORY

Investment Results	Full Year 2019	Full Year 2020	Full Year 2021	Since Inception[1]
LVS Growth Portfolio (net of fees)	**-**	**61.8%**	**16.1%**	**87.9%**
Benchmark: S&P 500 Total Return Index	-	*16.3%*	*26.9%*	*47.5%*
LVS Defensive Portfolio (net of fees)	**7.0%**	**13.2%**	**9.1%**	**32.1%**
Benchmark: Barclays High-Yield Bond Index	*13.4%*	*5.0%*	*4.0%*	*23.8%*

Note: investment performance is presented net of all fees and expenses. Investment results are as of December 31, 2021.
(1) LVS Defensive was incepted on January 1, 2019. LVS Growth was incepted on January 1, 2020.

January 30, 2022

Dear Investors,

This is not a standard LVS Advisory update – I will provide a “2021 year in review” note in a few weeks. Instead, I would like to encourage existing LVS Advisory clients to add exposure to the Growth portfolio and/or prospective investors to consider opening an account.

I believe the recent sell-off in the stock market, particularly in the growth-oriented companies that we focus on, has created an attractive entry point for investors. The last time I put out a call for capital was May 2020 (read the May 2020 note here). The opportunity set today is different but will likely be rewarding for investors with a 3+ year time horizon.

Opportunities created by market volatility

In the note shared last month (read the December 2021 note here), I described a “phantom bear market” where despite the overall market index recording a mere 4% decline, the median stock was down over 10% from highs. Diving deeper, many high-quality businesses were down 20% to 50% due to a variety of factors but namely due to anticipated interest rate hikes resulting in a re-pricing of stocks.

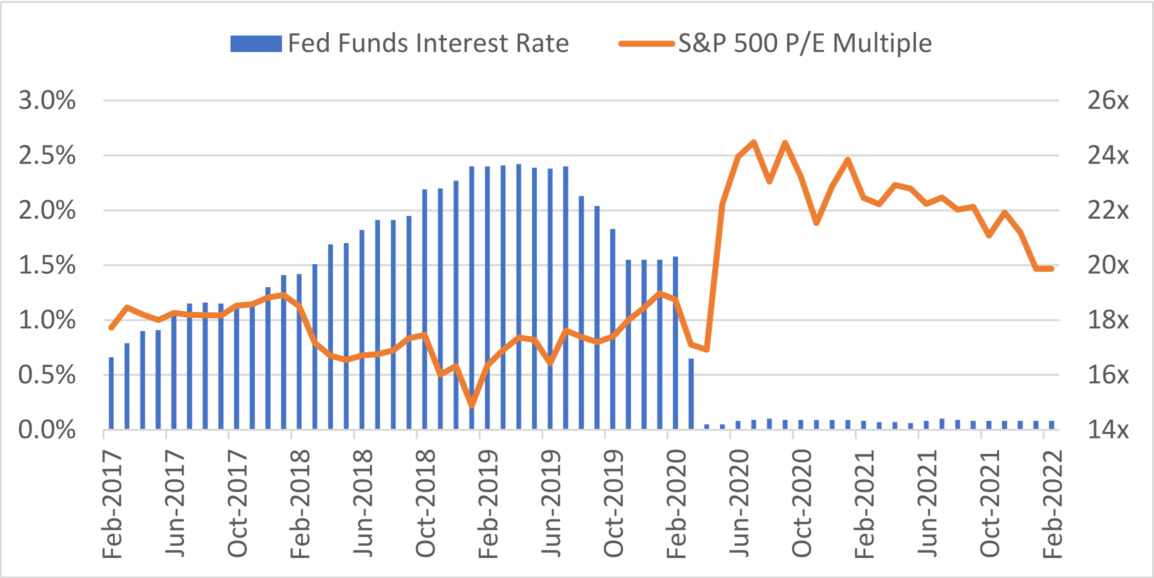
The sell-off intensified during January 2022 and the broader benchmarks have started to reflect pain felt by market participants. At the time of writing, the S&P 500 (large cap stocks) is down 8%, the Nasdaq 100 (technology stocks) is down 14%, and the Russell 2000 (small cap stocks) is down 20%, from the recent highs. This pattern is remarkably similar to Spring 2020 where small cap and high-beta stocks were beaten up and macroeconomic fears overshadowed individual business fundamentals.

Some stocks certainly deserved to see a deflation of value, but when the overall market moves in unison, babies are thrown out with the bathwater. For example, Peloton’s stock has declined over 80% from its recent high and for good reason. The company has indicated that it expects demand for its products to decline in the coming year and may even have issues funding its operations. However, there are many companies that we are following closely where business conditions are improving and the only thing that has changed is the price of their stock.

What is the market pricing in?

The sell-off in stocks was spiked towards the end of 2021 by rising inflation and anticipated interest rate hikes. This was confirmed in January when Federal Reserve Chairman Jerome Powell noted that interest rates would likely be hiked in March. The value of financial assets (stocks, long-dated bonds, real estate) is negatively impacted by higher interest rates because it raises the cost of money; therefore, a decline in the stock market is indeed justified by higher interest rates.

The pendulum may have swung too far. With the recent sell-off, the stock market in aggregate is trading at a similar multiple as it was pre-pandemic where the fed funds rate was 1.5% to 2.0% and the 10-year treasury bond was yielding over 3%. Today, the fed funds rate is still at the zero bound and the yield on the 10 year is 1.8%. In other words, **the stock market today is already pricing in a return to pre-pandemic interest rates.** Unless interest rates move meaningfully higher than pre-pandemic levels or there is an economic recession, we are approaching a floor on how much further market valuations can fall from here.



Source: St. Louis Fred, S&P Capital IQ.

The data is even more intriguing at the individual company level where many stocks are trading below their pre-pandemic valuations despite notable improvements in business quality and other fundamental characteristics. Taking a step back, stock market returns are driven by 2 factors: earnings growth and a change in valuation. With the recent market sell-off, valuations have been de-risked which allows investors to benefit more from earnings growth.

Buying the dip

I am not suggesting that the stock market selloff cannot deepen or that there are no inherent macroeconomic risks that could incrementally impair investors in the coming months. There is (always) the possibility that the economy slows and corporate earnings decline across the board which would make stock prices today more expensive than they appear on paper. Another factor is that stocks, particularly North American stocks, have been a favored asset class for the past 10 years and the asset class could fall out of favor and put downward pressure on future equity valuations. However, these are perpetual risks that investors must always confront regardless of the environment.

What I am suggesting is that the probability of attractive investment outcomes has materially improved over the past two months and that we are excited about the prospects for many of the specific companies in our portfolio today.

Best regards,

Luis Sanchez

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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