No Pain, No Gain …. Understanding What Markets Do & Why It Is Important To Stay Disciplined

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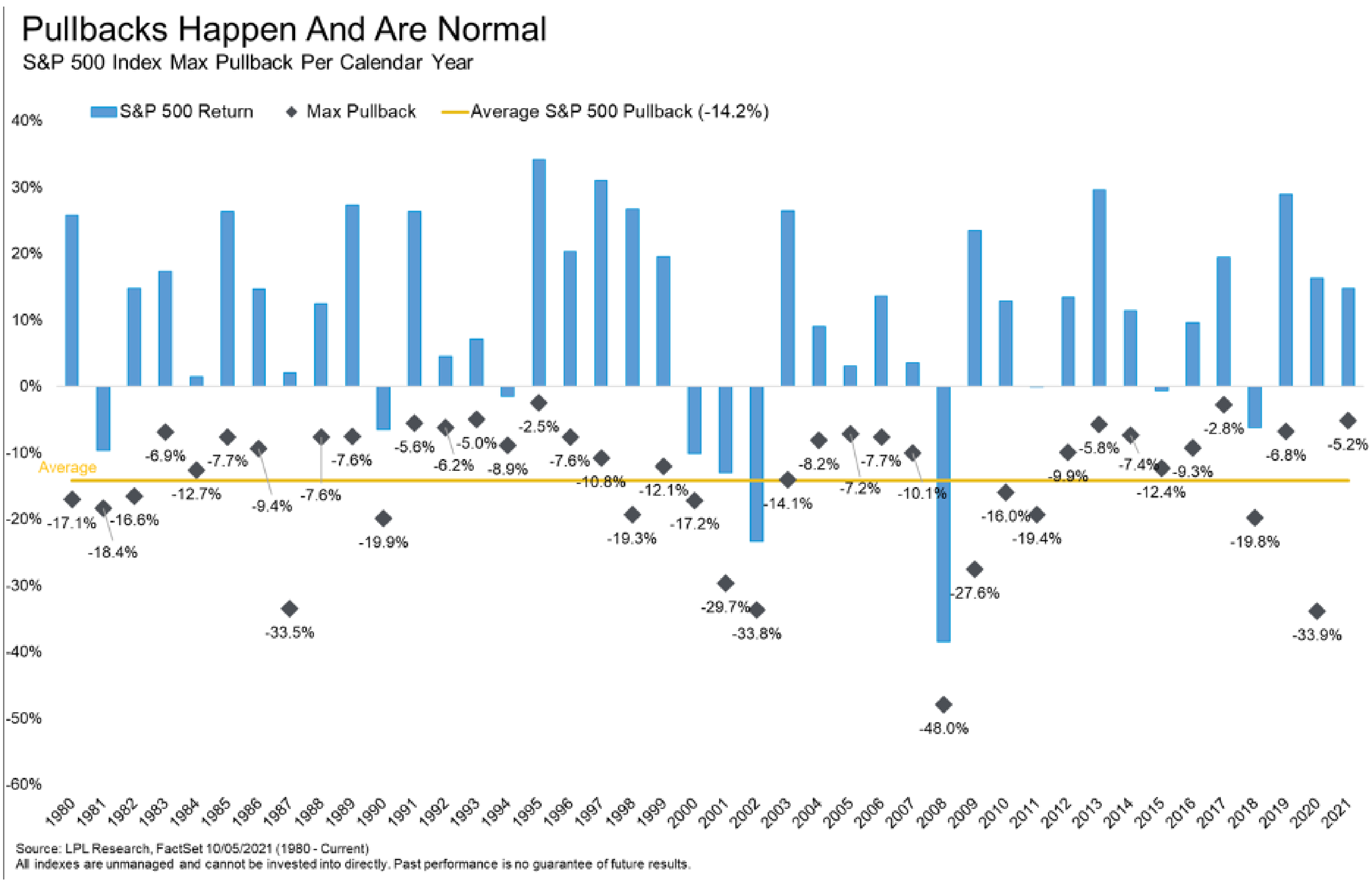
This post-pandemic period in the stock market is proving to be one of those times that disciplined long-term investors will look back on from much higher levels and think about how scary it was in the moment and pat themselves on the back that they did not panic.

Like most other painful periods in the stock market, this one makes it hard to see how it turns around, but empirically we know that it will. History and my 25-years of managing equity portfolios inform me that the vast majority of our portfolio holdings will recover to new highs more rapidly than today's pessimistic sentiment reflects. Below is a powerful graphical illustration of just how often the stock market puts long-term investors through periods of painful selloffs which can engender self-doubt, regret, and fear



The chart above illustrates how much even the most broadly diversified stock market index swings from positive to negative each year. If the broad market swings 3% to 48% each year, as measured by the peak to trough price action of the S&P 500 since 1980, one can simply extrapolate that the average individual stock price demonstrates much greater volatility. With history as our guide, this year's market pullback has only been slightly worse than average, but the price damage has been much more painful for the very most widely owned sectors within the market. See the chart below for a look at S&P 500 sector returns YTD in 2022:

Sector Name	2022 YTD	Index Weight	Contribution
S&P 500®	**-6%**	**100%**	**-6.04%**
Energy	47%	4%	1.24%
Consumer Staples	5%	7%	0.31%
Utilities	8%	3%	0.20%
Materials	0%	3%	0.01%
Health Care	0%	14%	-0.01%
Real Estate	-2%	3%	-0.05%
Industrials	-3%	8%	-0.26%
Financials	-3%	11%	-0.28%
Consumer Discretionary	-11%	12%	-1.37%
Communication Services	-18%	9%	-1.81%
Information Technology	-14%	27%	-4.02%

Source: S&P Dow Jones Indices. Data as of Apr. 20, 2022. Table is provided for illustrative purposes only. Past performance is no guarantee of future results.

The three poorest performing sectors in the S&P 500 this year make up 48% of the index in terms of market cap weighted performance contribution. On the other hand, the three best-performing sectors this year only make up 14% of the market cap weighted performance of the index. By far the best performing stocks in the market are energy stocks, an area that Seven Summits Capital has purposely avoided since the rout of that sector in 2015-16. For the most part energy company stocks are extremely positively correlated with the futures price of the underlying commodity. Having seen even the very best energy executives and investors get the direction of oil and gas prices wrong over and over again, we do not want to pretend that we can play that guessing game any better. Below is a chart showing the relationship between the price of WTI oil and the basket of global energy stocks over the last 20 years through late 2021:

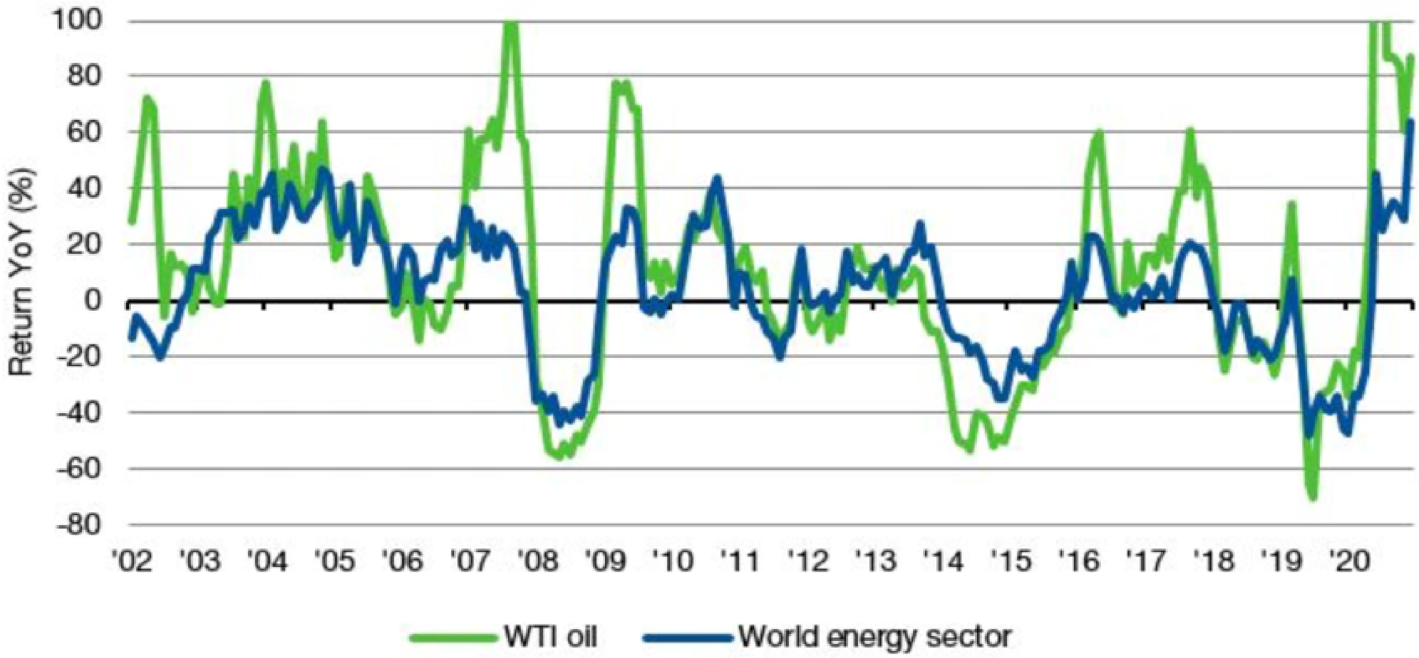


Chart by Klement on Investing

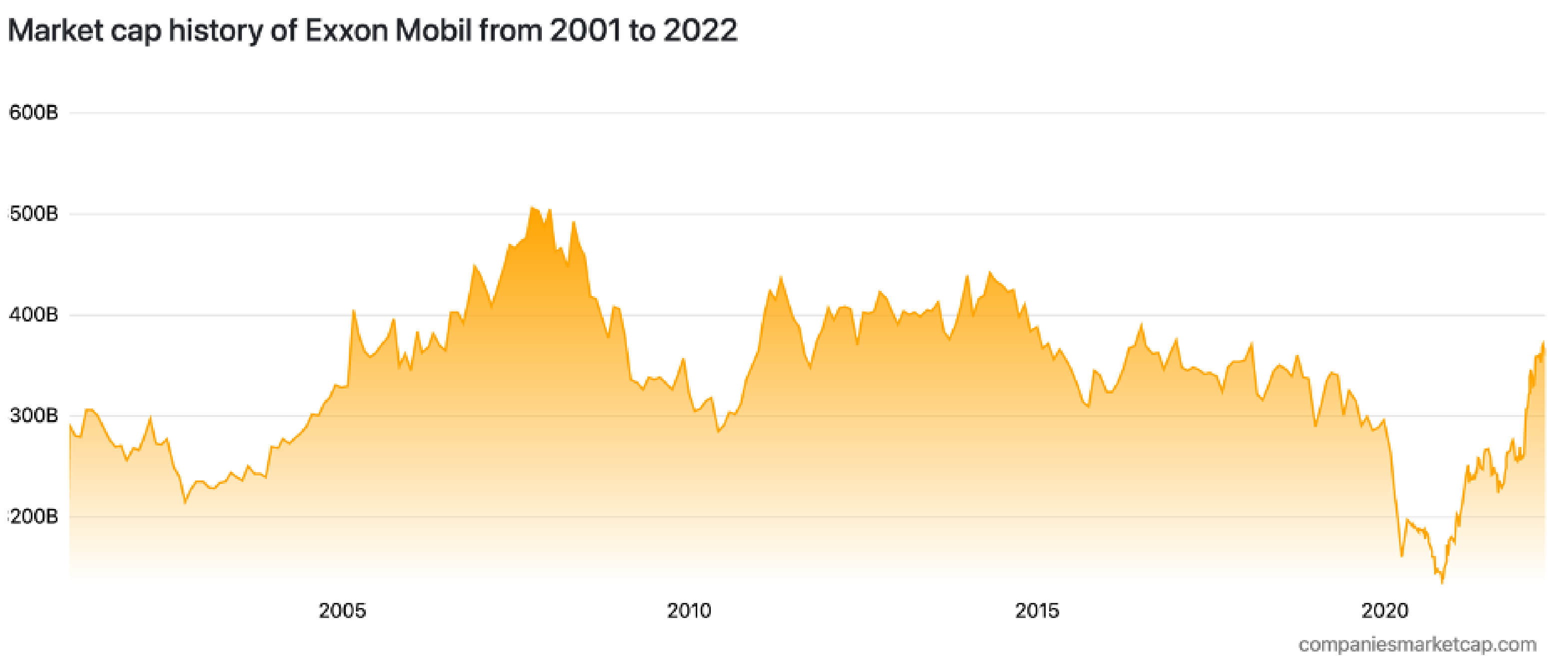
Data Source: Bloomberg

We are long-term investors and making money in commodities such as energy is inherently a short-term trading endeavor. The one area related to energy that we may be comfortable investing in over the next several years is a liquified natural gas (LNG) infrastructure which is likely to benefit from a secular trend brought about by the likely migration away from Russian natural gas for most European countries. The U.S. is well-positioned to become one of the largest exporters of LNG in the world.

We know that our clients are concerned about the losses in value within their portfolios over the last six months and we don't just want to tell you everything will be all right, we want you to understand why we are confident that it will indeed be the case. We also want our clients to know that we are not asleep at the wheel as prices fall. We are introducing some new equity positions such as Valmont Industries (VMI), Dick's Sporting Goods (DKS), RH Corp. (RH), and ASML Corporation (ASML). We are also seeing extraordinary opportunities to add to existing widely held positions at very attractive price levels, such as Disney (DIS), Unity Software (U), and GoodRX (GDRX).

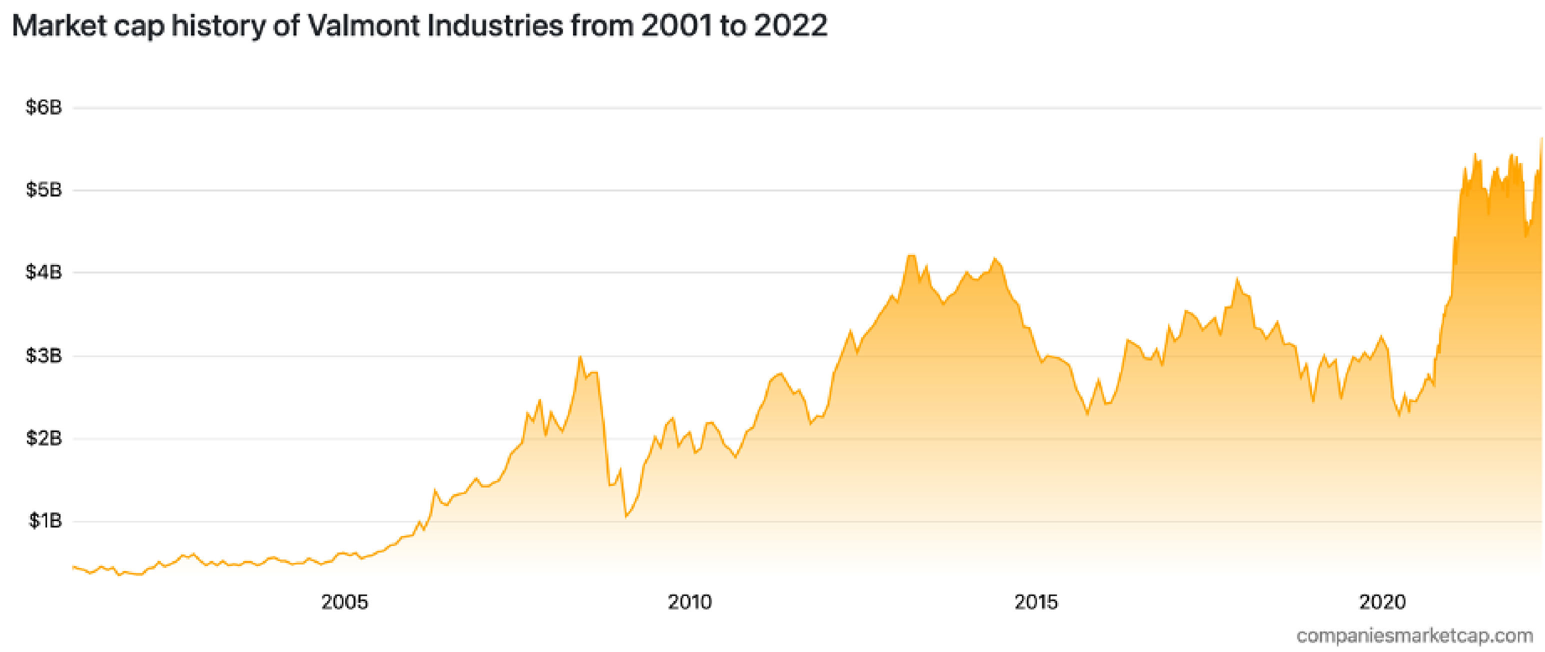
As I write this commentary, I wish that I could give you a reasonably accurate estimate of when the market will begin to turn around, but that is not ever possible. What I will say is that these types of significant drawdown periods in the markets tend to bottom and turn around rather abruptly and unexpectedly.

I just want to remind everyone that your stocks represent companies and most of them are doing quite well financially despite the challenges to which the overall market is reacting of late. These companies, which are represented in your portfolio are not in any form of crisis as one might expect if a stock abruptly loses 50% of its value. Stock prices are unfortunately many times completely disconnected from the financial performance of the enterprises that they represent. This is frustrating to witness as an investor, but at the same time, it is this disconnect that allows a manager like Seven Summits Capital to find significant long-term value opportunities. Our primary focus is on exposing client portfolios to companies whose stock prices translate to a company valuation that is meaningfully below the valuation implied by future growth, profits, and cash flows. Because of this way of looking at equity investing there are companies that we avoid and those that we are drawn to because they are likely to continue to grow in size and value. An example of a company that I have not owned for any client over the last 15 years is Exxon Mobil. Here is why:



We search for companies that will compound their value over time. Exxon Mobil, because of long-term secular headwinds for its products, cannot compound its value, instead, its value has been relatively flat to down over the last 20 years and that is before inflation.

On the other hand, a company that I have owned several times over the last 10-15 years is Valmont Industries (VMI). Here is why:



Valmont was roughly a $1 billion company as the markets began to recover from the 2008-09 financial crisis. By 2014, Valmont had grown to be a $4 billion company and today the company's value is over $5 billion. We did not own it continuously over this time, but I have continuously followed the company and like to attempt to participate in its compounding of value during times when markets are challenged, and the company is positioned to outgrow the economy in the years ahead. We believe that this is one of those times.

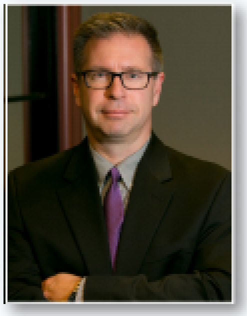
I sincerely hope that this month's commentary, during a time when stock prices and portfolio values are depressed, will provide comforting insight into why we do not fear stock market corrections and even Bear Market periods, but instead, we use such periods to capitalize on severe price dislocations in the stocks of companies that are long-term compounders of wealth.

Our success as stewards of our client's long-term capital hinges on the trust our clients have in our ability to stay calm in the face of hostile periods in the markets and make the very best long-term focused decisions to preserve and grow their wealth.

Curt R. Stauffer

President & CIO

Seven Summits Capital



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Disclosure:

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