Vox Markets

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My biggest investment mistakes

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Voice OF THE MARKETS

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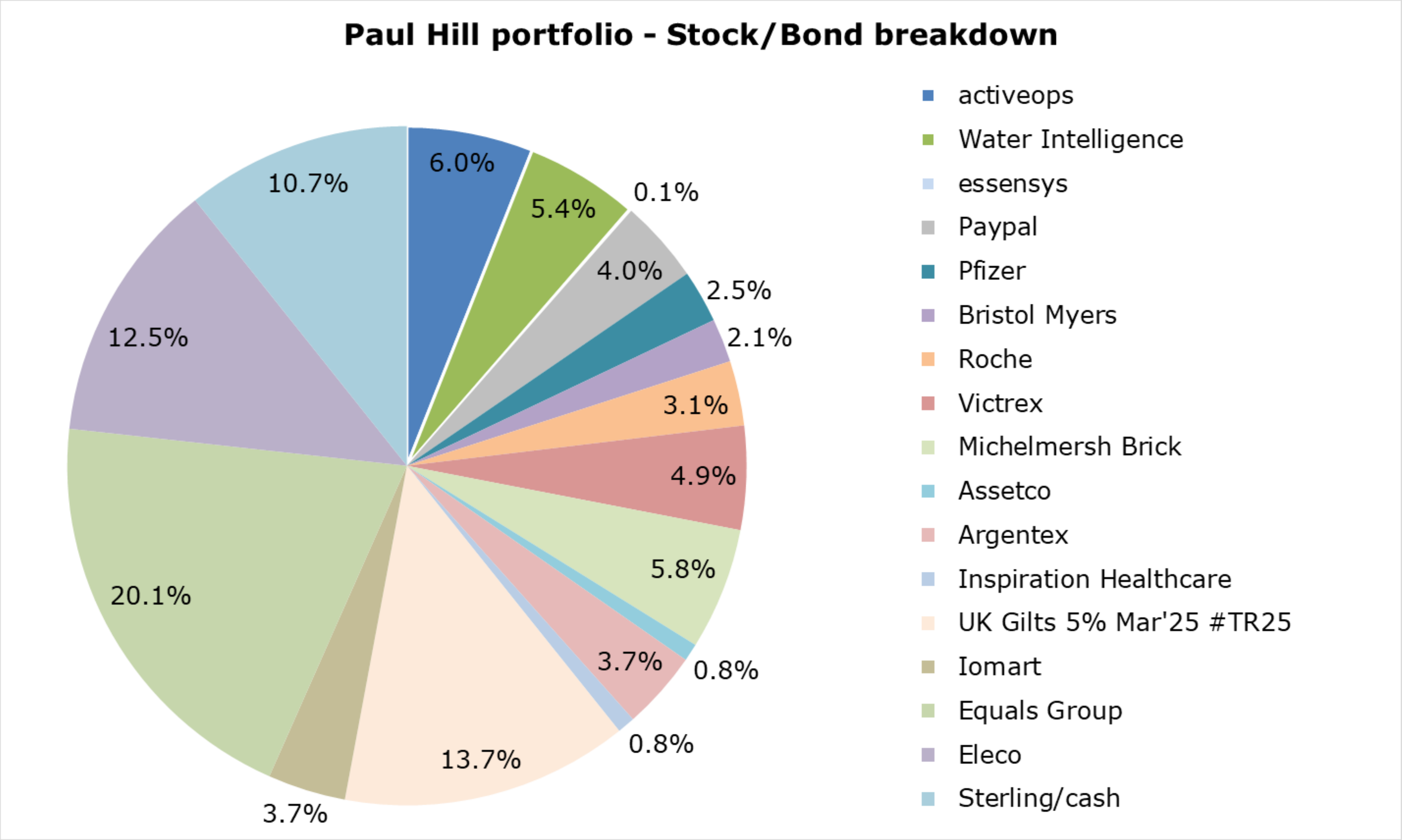
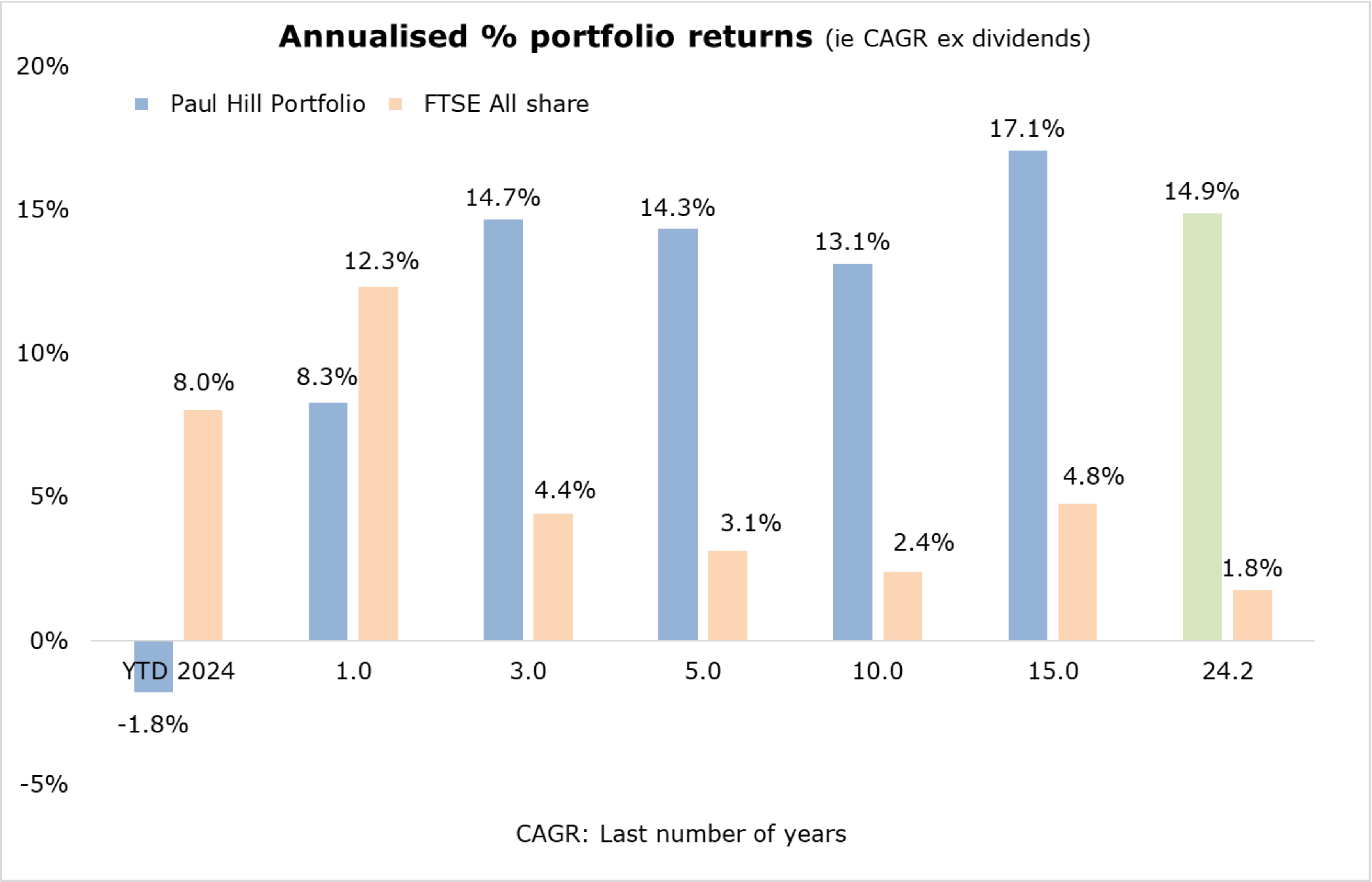
- **Please do your own research and reach your own conclusions**
- This document does not constitute, and should not be construed as, any offer for sale, purchase of any share and/or traded security
- **Past performance is no indicator of future returns**
- My **HIT RATE is ONLY 62.5%**. 37.5% of the time I lose money, albeit my winners are (on average) 50% bigger than my losers.
- **High risk tolerance & long time horizons**. I run a concentrated portfolio with lots of idiosyncratic themes.
- **Stocks owned**: EQLS, AGFX, Pfizer, Bristol Myers, Roche, WATR, IOM, MBH, ASTO, TR25, ESYS, ELCO, IHC, VCT Paypal & AOM.
- Elsewhere, I'm also **paid by Vox Markets to interview fund managers, capital market experts & companies** (re EQLS, VRCI, BELL, CSFS, AVG, AVCT, LLAI, VLG, FADL, SUP, ELCO, LORD, MPAC & ONC).

15 stock portfolio & 25% in bonds/cash



Investing is a marathon, not a sprint



Order of play

- Laws of the ‘jungle’
- Why investors should expect to be wrong a lot of the time
- Losses are <u>painful</u>, but this is a good/essential sign
- Not all mistakes are created equal.
- Importance of having a robust process vs simply measuring outcome
- How I control my emotions when things go pear-shaped
- Biggest losers & lessons learnt
- Two recent stock purchases

Laws of the jungle

- Arizona University reviewed >64,000 stocks between 1991 to 2022.
- Conclusion: **majority of stocks** (56% US, 65% UK & 60% Europe) **under-perform US Treasuries**. With the most gains coming from <5% of companies (eg 'Mag 7').
- So what does this mean?
- Gains are typically generated by a small number of large winners and investors should expect lots of losers
- Hence avoid doubling/averaging down as likely to be a low proby bet
- Equally though, don't beat oneself up. Cathartic
- Accept the bad calls & move on.
- Pick shares that offer asymmetric upside (re uncapped gains)
- It is often a fine line between brilliance & stupidity, and its not always easy to distinguish which (ie luck vs skill).

So why is stock picking so difficult?

- Companies don't operate in a vacuum & are affected by many uncontrollable forces.
- In fact even Wallstreet & City experts struggle to accurately predict where GDP, interest rates & CPI are heading. 18 months ago they said a recession was coming. In Dec'23 they reckoned there'd be 7 interest cuts in the US?
- That’s why basically why we all make mistakes. Things rarely pan out exactly as planned (re acts of god, wars, elections, etc)
- So what's the answer?
- Well one has to embrace this uncertainty, be adaptable, constantly monitor what’s happening & remain resilient when things go wrong.
- Also avoid 'betting the farm' on just one perceived 'home run' (however great it might appear).

Plus don’t confuse luck with skill

- ‘Acceptable mistakes’ are unavoidable (Re Market Beta). Say where the risk-adjusted investment returns do not materialize – even after doing detailed research & scenario analyses, alongside monitoring performance & taking any corrective action.
- Dumb mistakes (negative Alpha) on the other hand are good learning opportunities. They can happen due to a lack of understanding, poor portfolio construction, behavourial finance, etc
- So how can these ‘stupid errors’ be minimized?
- Have a robust investment process and stick to it (re positive Alpha).
- This process should be repeatable & can provide mental support during tough periods
- Don’t forget to learn from winners too

Some of my most memorable howlers

- Moving too far up the risk spectrum eg
  - ‘Not top slicing’, where positions become >20% of portfolio (US online gambling ban in Oct’06, excessive concentration)
  - Low probability bets such as bottom fishing in structurally broken industries (PV Crystalox solar panels & Superglass insulation) &/or turnaround stories. The crowd is right most of the time.
  - Punting on ‘blue sky story’ stocks (Sondrel AI - lumpy contracts)
  - Poor assessment of management (eg who say one thing but do another, delusionary &/or are lazy)
- Buying ‘illiquid’ assets (eg nano stocks <£25m mrkcap), where it is impossible to exit
- Not properly understanding a sector’s <u>supply</u> dynamics (eg Boohoo, ecommerce & Chinese competition in solar)

More mistakes

- Investing in value plays which are actually value traps (eg C&W, Monitise, Vislink, Nokia, Pfizer, Bristol Myers & Roche)
- Failing to properly understand the value proposition (eg Purplebricks)
- Backing CEOs that are going through personal problems – eg divorces, cocaine habits & bereavements (eg Imaginatik)
- Investing in lifestyle businesses (Simigon, Rosslyn Data Tech, etc)
- Selling towards the bottom of the pandemic – accesso (theme park software) and aerospace (Textron)
- Also 'selling too early' (eg Tristel, Taser/AXON, Yougov, Augean, Delcam, etc) – say purely on valuation grounds
- Buying emerging market stocks (Asian Citrus, Haike Chemicals, Ruspetro Chinese and CSF group) where poor corporate governance

Other common mistakes

- Single customer (eg NHS) &/or brand (Superdry)
- Trying to time the market. Better to be in early rather than too late
- Leveraging up positions on borrowed money or margin (eg LTCM, Archegos) – which can be deadly during Black Swans
- Becoming a forced/distressed seller (Neil Woodford)
- FOMO - following the herd
- Hubris &/or overconfidence
- Blaming others for losses, rather than learning from losses
- Liquidity mis-match. Buying private companies / real-estate with short term capital/debt
- Term mismatch – Silicon Valley bank (buying US Treasuries with bank deposits)
- Mistaking temporary issues with structural decline – or equally confusing cyclical vs secular growth

Learnings & changed behaviour

- I now rely less on management to deliver investment thesis
- Have greater skepticism over achievability of self-help measures.
- Avoid serial under-achievers (Leopards & spots)
- Top slice winners, but rarely sell out entirely on valuation grounds
- For deep value stocks – understand better why they're cheap & the 'herd' is wrong. Stress 'margin of safety.
- Almost never "double/average" down on losers
- Greater emphasis on 'liquidity' – so can get out if rationale is wrong
- Don't get overly confident in ability, particularly after a profitable run. The tendency can be to put more cash into speculative areas which invariably leads to painful losses alongside lower hit rates.
- Understanding strengths (re analytical, risk tolerant & L/T) & weaknesses (stubbornness, impulsive & poor judge of character)

My investment process - assess

- Company (USPs, numbers), industry (secular vs cyclical), price vs valuation (margin of safety) & management (experience & hunger)
- Liquidity & ownership structure (dominant shareholder?)
- Portfolio construction, position sizing & scenario analysis
- Ongoing home-work & monitoring.
- Top slice large positions to invest in other opportunities,
- I ideally like to invest in companies with 50%+ gross margins (re operating leverage), low capex needs & operate in sectors with secular tailwinds. Plus should be an AI beneficiary
- Rince & repeat what works for you.

What to do if you can’t sleep at night

- Everyone makes mistakes
- Reality is there’s a lot outside of yours & company’s control
- You only really know your "risk tolerance" when you blow through it.
- Coping with the initial shock/reset is the hardest. Hence write down losers to zero, rather than being ‘killed by a thousand cuts’
- Decrease volatility eg lower portfolio’s Beta:
  - Lift the allocation of cash/investment grade bonds,
  - Shift from smallcaps to largecaps, or ‘defensives from high-beta names’.
  - Diversify further to help neutralise idiosyncratic risk
- Concentrate on total portfolio return - not individual stocks
- Focus on intrinsic worth, as opposed to day-to-day price fluctuations
- Jettison stocks whose original investment case is shot-to-bits.
- Stay positive & keep busy

Two recent stock purchases

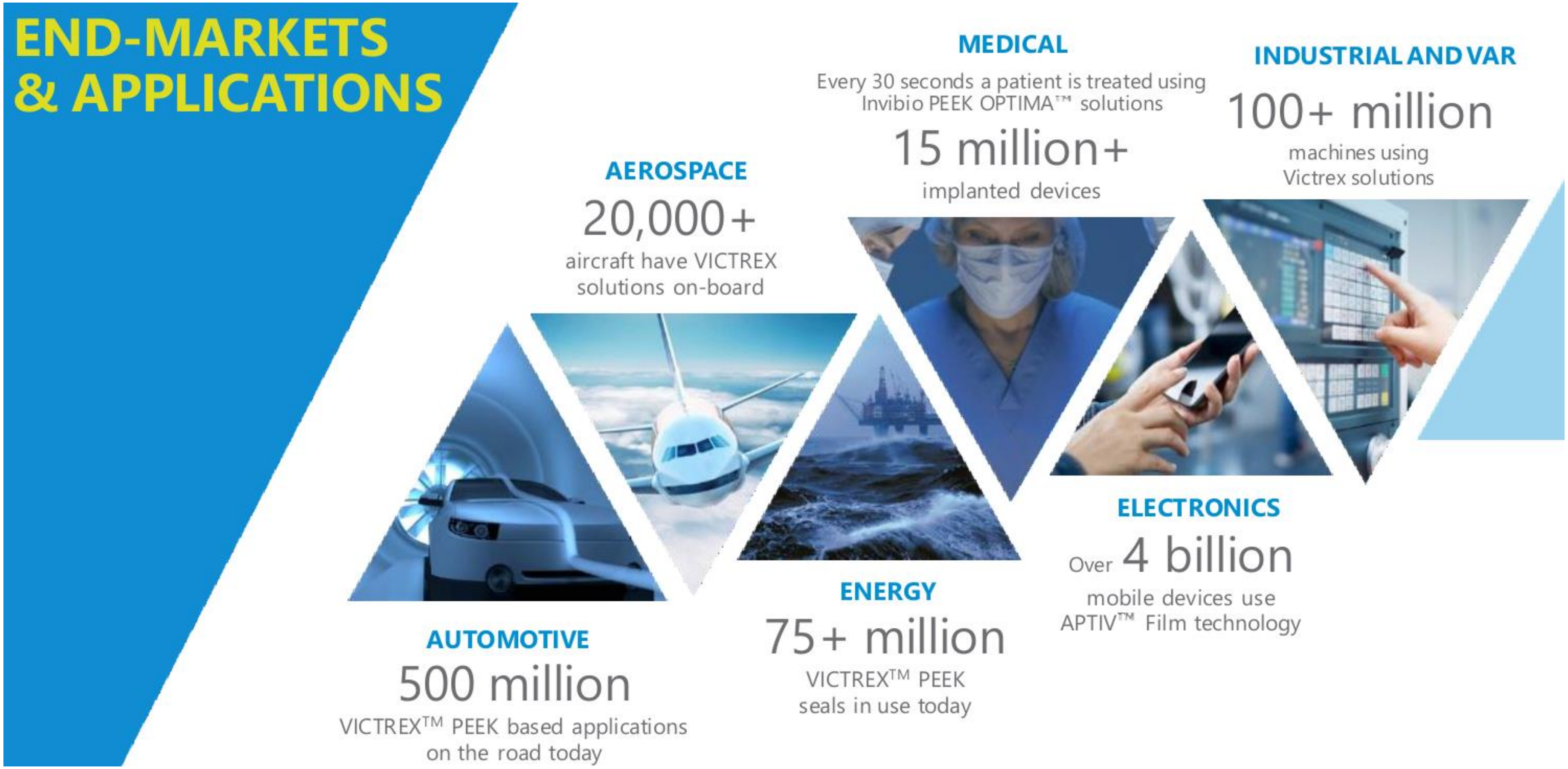
- Victrex

- Iomart

PEEK polymer producer - Victrex

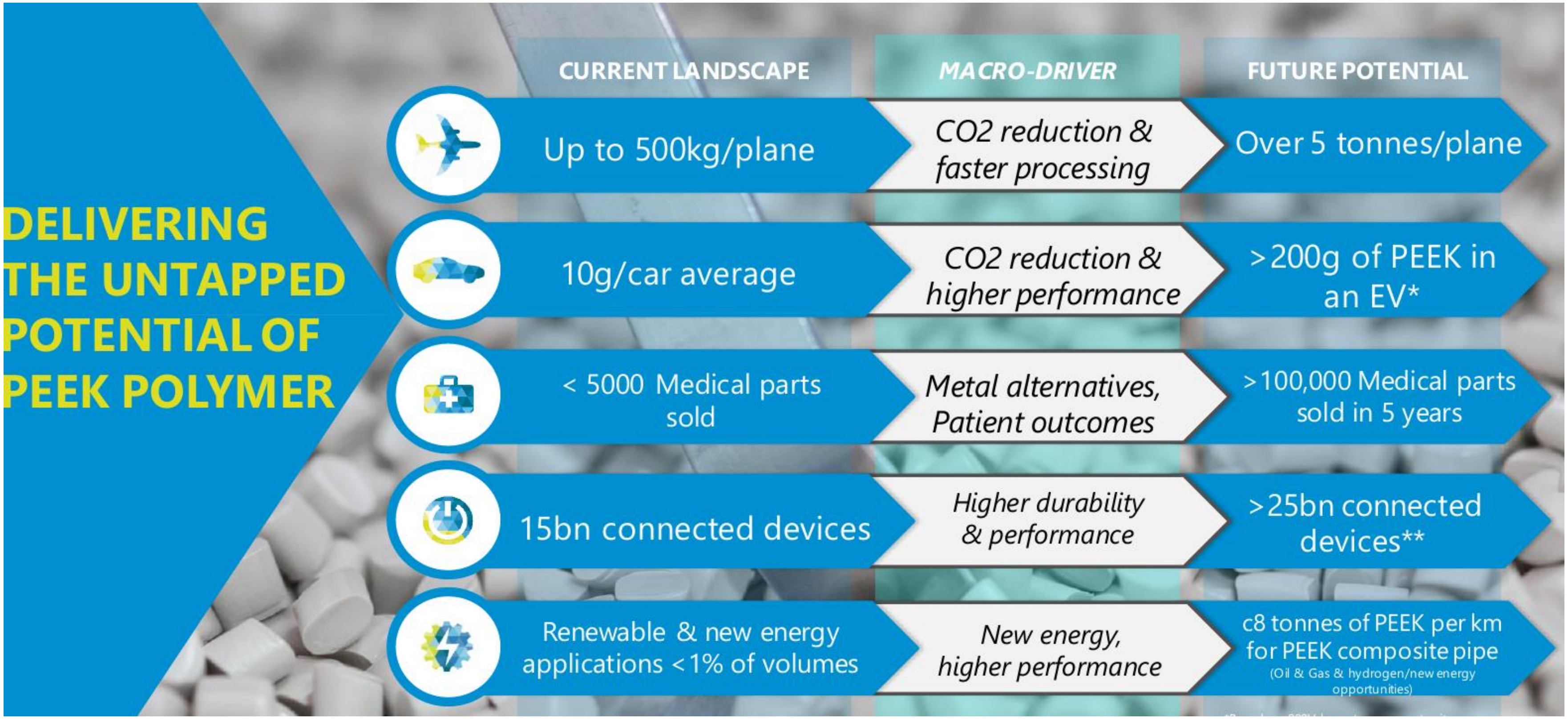
- Crown jewel in UK industrial sector & trophy asset
- PEEK is light-weight, strong, bio-inert, heat/chemical tolerant & long lasting (metal replacement). Recent director buying (eg CFO & CEO)
- Plenty of IPR and 25% EBIT profit margins
- Despite tough H1, growth seems to be turning positive with Q2 sequentially above Q1 with stronger H2 expected too.
- Lots of growth (8-10% pa): Aero composites, EVs & E-mobility, knee joint Indian regulatory submission for PEEK knee joint in 2024
- Aim to double medical revs by 2029 and be >30% of VCT by 2032
- 80% gross margins for medical vs 40% industrial (50%+ group)
- Major capex programs (eg China factory) & NPD (knee) complete.
- Net debt £50m (or 0.5x EBITDA). 18x PER at £13.15 with a 4.5% div yield. My fair value £15.50 based on 15x EV/EBITDA, or 15%-20% upside

Victrex



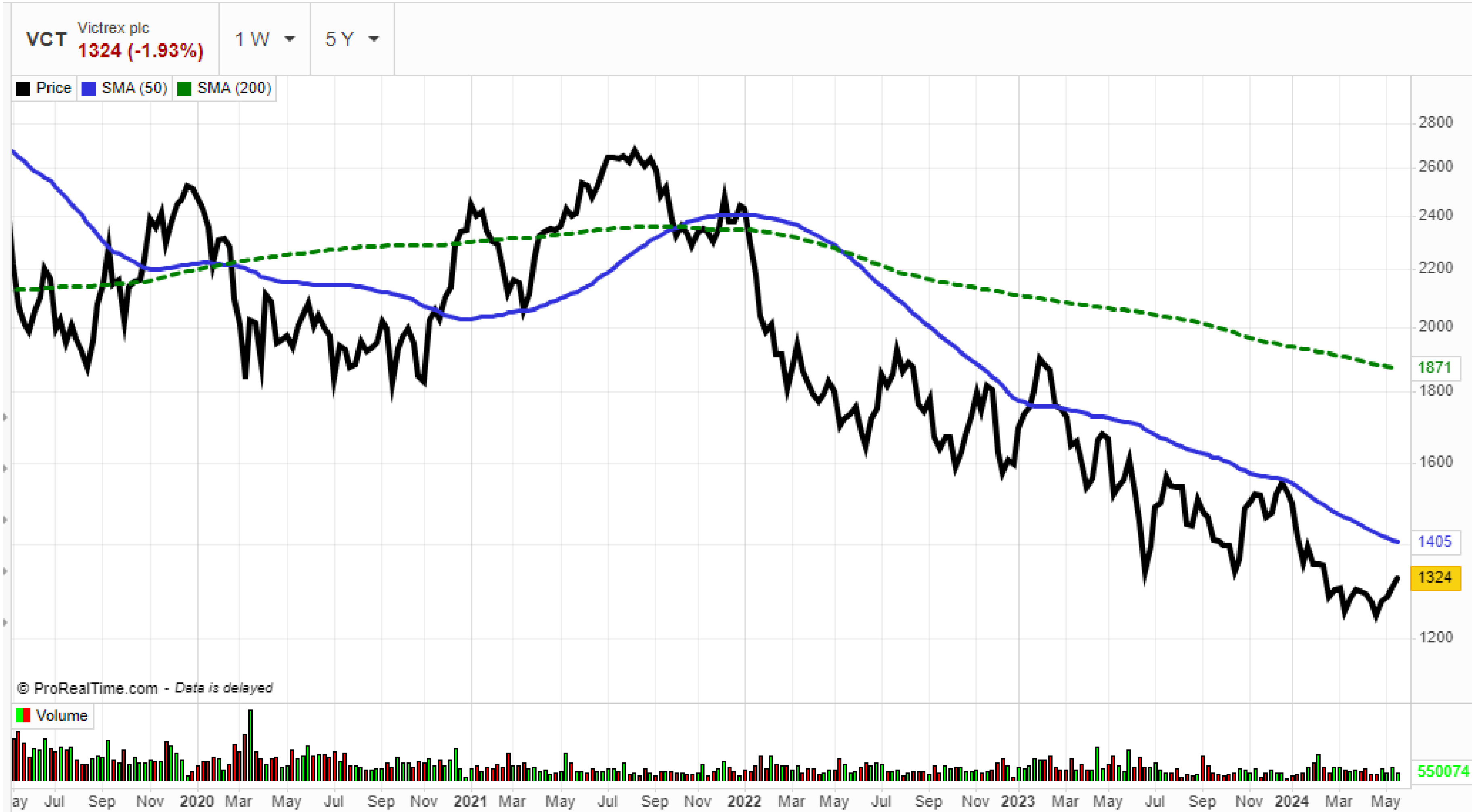
END-MARKETS
& APPLICATIONS
MEDICAL
Every 30 seconds a patient is treated using Invibio PEEK OPTIMA™ solutions
15 million+
implanted devices
INDUSTRIAL AND VAR
100+ million
machines using Victrex solutions
AEROSPACE
20,000+
aircraft have VICTREX solutions on-board
ELECTRONICS
Over 4 billion
mobile devices use APTIV™ Film technology
ENERGY
75+ million
VICTREX™ PEEK seals in use today
AUTOMOTIVE
500 million
VICTREX™ PEEK based applications on the road today

Victrex



Risks: Not cheap 18x PER, competition, single technology, £50m net debt, etc

Victrex (Mrkcap £1.2bn)



Data centre operator - Iomart

- Profitable, cash generative, owns 12 data centres in the UK & offers SMEs cloud managed services too (eg cyber security, microsoft)
- 91% recurring revenues and 57% gross margins
- Secular growth drivers (re AI, digitization, cloud, cyber, etc), but revenues recently held back by churn in SMEs as reduce costs
- New management team need to inject top line growth. Patience req'd.
- Barriers to entry – Reputation and takes a long time for rivals to build & connect new data centres to grid.
- Net debt £43m (or 1.1x EBITDA). 13x PER at 137p with a 3.9% div yield. My fair value 230p based on 8x EV/EBITDA, or +60%-70% upside.
- Possible acquisition target

Iomart (£155m Mrkcap)

Risks : Turnaround &/or growth strategy fails. Value trap? Competition from hyper-scalers, investing in AI infrastructure (re getting hold of Nvidia chips). Energy price volatility. Continued churn