04/24/2021: March 2021 Portfolio Review

Operators,

March was a rough month for the MO portfolio as we generated **-9.18%** returns. During that time, the S&P 500 returned **+1.82%**.

At the end of Q1, the MO portfolio returned **24.02%** while the S&P 500 returned **7.36%,** tripling the broader index.

The drastic swing in this month's underperformance is a feature, not a bug in our strategy.

We hold a (relatively) concentrated collection of investments that don't mimic the broader US indices. For example, we own a German online furniture marketplace, an Argentinian crop fertilizer company, and Palladium futures, to name a few.

As such, our monthly, quarterly, and annual performance figures ***will not*** resemble the S&P 500.

This weekend's review features:

- Top 5 Performers
- Bottom 5 Detractors
- Altria Group (MO) Update
- Rocket Company (RKT) Update

Quick housekeeping note before we begin -- the top five and bottom five companies *only include* positions bought, held, or sold during March.

Alright, let's get after it.

Top 5 Portfolio Performers

- **Bioceres Corp (BIOX): +27.41%**

BIOX is our Argentinian crop protection and fertilizer business.

On March 16th, BIOX announced a 6% stake in Moolec Sciences. Moolec operates a facility for the production of protein concentrates and oils. It aims to produce animal-free products at a cheaper cost.

Shares rocketed that day and were eventually halted. We couldn't take profits fast enough and settled for a 36% gain on 25% of our position. The market giveth and she taketh away.

- **Grayscale Bitcoin Trust (GBTC): +9.21%**

GBTC was another coupon-clipper for us this month. We trimmed our Bitcoin exposure to ~5% of the portfolio after adding Grayscale Ethereum (ETHE). We're comfortable with our current position and will look to add on future breakouts.

Note: we sold out of this position during April

- **Antero Resources (AR): +4.08%**

AR is an independent oil and natural gas company that acquires, explores for, develops, and produces natural gas, natural gas liquids, and oil properties in the United States. The stock rose 4% during March.

We sold 75% of our position a couple of weeks ago and will look to add if shares fall to $5-$7.

- **Intel Corporation (INTC): +1.78%**

INTC got busy during March. The company announced plans to spend $20B building two factories and creating a foundry business in the US to serve global semiconductor chip demand. As a reminder, we're playing INTC through DOTM call options.

This is *huge* news. Alex and I have written extensively about the growing semiconductor shortage and how we're ready for a new supercycle in chip demand. Read Alex's Micron piece here and listen to my podcast with semi-savant @FoolAllTheTime.

CEO Pat Gelsinger knows two things about his situation:

1. Semiconductors are the new oil, and every significant player (i.e., China) is racing to develop the best and brightest tech.
2. INTC is the US's biggest bet in maintaining global leadership in the "new oil" commodity race.

Don't be surprised to see the US government throw big money (via incentives, tax breaks, etc.) at INTC to help them win that market.

- **S&W Seed Co. (SANW): +1.11%**

SANW had your typical microcap month. They issued a wildly bullish PR regarding their sorghum crop solution, and the stock barely moved. Here's a snippet from the release (emphasis mine):

> *"S&W Seed Company (SANW), an agricultural seed technology company, and Adama, a crop protection company, said Thursday they won US EPA approval of FirstAct, the herbicide component of their sorghum-cropping product called Double Team.*
>
> ***The approval paves the way for the sorghum grass solution to be commercially available in the US,*** *the companies said."*

Weak/overextended small-cap headwinds forced us to trim exposure. We'll be quick to add back to our position on a sustained breakout.

Bottom 5 Portfolio Detractors

- **Ammo, Inc. (POWW): -17.43%**

POWW had an eventful month: raised $100M through a public offering to finance the purchase of GunBroker.com, signed an exclusive distribution agreement with BIO AMMO, a biodegradable shotgun ammunition manufacturer; and bought a new precision ammo loading line for its Manitowoc, WI factory.

- **Bidstack (BIDS): -17.19%**

Nothing new for BIDS. Another month, another drawdown. We sized this extremely small, so a 17% retracement in the stock barely moves the needle.

- **XP, Inc. (XP): -14.62%**

We exited our XP long during the month for a 207bps loss. While we love the long-term outlook, we must respect our risk parameters. We took another long position in April.

- **Betterware De Mexico (BWMX): -9.97%**

BWMX acquired 60% of GuruComma, a mobile virtual network operator and communications software developer, for $2.2M in cash. There are myriad benefits to this acquisition, which you can read here.

The company's expecting 49% and 23% revenue and EBIT growth in 2021-2022. Yet somehow the stock still trades at <3x sales and 10x EBIT. We're hoping to add on a pullback to its 20MA (~$39/share).

- **Nintendo (NTDOY): -8.52%**

NTDOY killed it this month. Nintendo Switch, the company's latest hardware console, sold more in dollar terms **and** units than any gaming console. That includes Sony's PlayStation and Microsoft's next-gen consoles. In all, the video game industry generated $56B in revenue during March, smashing its previous record.

The charts are forming a constructive symmetrical triangle on the weekly time frame. We'll wait to see which way it breaks before adding.

Altria Group (MO) Up,date

This week, tobacco stocks were under *severe* pressure as the Biden Administration moved to reduce nicotine levels in cigarettes to nonaddictive levels. The market's knee-jerk reaction sent MO's shares down ~14% in two days while drastically reducing the value of our DOTM call options.

We abhor knee-jerk reactions here in the Collective and instead focus on the facts and weigh a wide vector of probabilistic outcomes. There are two ways we can think about the situation.

On the one hand, you never want the US government acting as a headwind for a company's earnings growth. We'd prefer buying businesses in industries with long runways for development and enthusiastic customer/government support.

On the other hand, the measure could do the opposite of what they're intending. It is the government, after all!

If passed, the move would reduce the amount of nicotine tobacco companies could shove into each cigarette. The goal, of course, to reduce addiction and get customers hooked on other, less lethal products (like lozenges, e-cigarettes, etc.).

That said, this could prompt smokers to buy more cigarettes to get the same nicotine "fix" they had prior. If it takes two cigarettes to get the nicotine heat that *would've* come from one, smokers will smoke two. This means they'd buy *more* -- not less -- cigarettes.

The Tobacco Endgame

There's an excellent whitepaper called, *The tobacco endgame: a qualitative review and synthesis* that is a must-read for anyone investing in tobacco products.

The endgame has four stages:

1. Product-focused endgame proposals
2. User-focused endgame proposals
3. Market/supply-focused endgame proposals
4. Institutional structure-focused endgame proposals

We're still in the first stage of this endgame in the United States. It will take a while to reach the final stage as tobacco companies sic its legion of defense lawyers on the Capitol.

What's MO to do? How should we think about the long-term cash-generative abilities of the company? MO *feels* like a melting ice cube that has a chance of reaching the freezer. The company generates gobs of cash and pays (as of this week) a 7%+ dividend yield.

Here's our thesis: **MO's endgame is the leader in tobacco-free products like e-cigarettes, vapes, and marijuana. If it can survive Washington's legal onslaught and make it to its tobacco-free future, the business should do fine.** It just needs to get there.

I'd love the stock to continue its sideways consolidation so we can build a sizable equity position in the next couple of weeks. Keep your eyes peeled for a potential trade alert.

Rocket Companies (RKT) Still Looks Too Cheap

In early March, I wrote about the value opportunity in RKT (you can read it here). The write-up outlined three reasons why RKT is the best mortgage lender in the country:

1. Defensible data
2. Best-in-class online experience
3. Seamless application process

Here's a snippet from the Note (emphasis mine):

> *"**RKT processes more loans than any other lender**, allowing them to collect the country's largest mortgage-lending dataset. **Data on mortgages is precious not only to RKT but to banks, credit cards, and any other business that wants verifiable data on a customer's creditworthiness**.*
>
> *But the data is more than a valuable resource to other businesses. **It allows RKT to provide the fastest mortgage approval processes in the industry.** Customers can close on an RKT mortgage in as little as 16 days and refinance in 8 days. **With increasing amounts of data feeding the algorithm, approval/closing times will shrink towards instant**.*
>
> *Faster approval times and better online experiences mean **more DTC customers using RKT's mobile application process, which means more revenue and profits.** These market-leading profits allow RKT to **reinvest into its business and expand marketing at higher incremental rates than its peers.** In short, RKT stays top-of-mind when consumers think, "who should I use for my mortgage application?"*

So yes, COVID-19 pulled forward months (years?) of returns. But it also solidified RKT as the go-to choice for home mortgages. The stock still trades at ~$22/share because too many investors are concerned with the next quarter/year's comps.

Next year's comps don't matter. What matters is RKT generated outsized profits during COVID that allowed them to gain an equally excessive advantage over its peers. Even if the company reverts to pre-2020 levels and generates ~$1B in operating income, they'd still trade around 35x. Which still looks cheap given their structural edge and top-of-mind customer share.

That could change quickly as the stock looks primed for a breakout (see below):

rockvuecap published on TradingView.com, April 24, 2021 13:52:45 EDT
BATS:RKT, 1D 22.15 ▲ +0.28 (+1.28%) O:21.89 H:22.28 L:21.82 C:22.15

We're keeping a close eye on it and will look to add if it breaks out above its 20MA on above-average volume.