15 MAY 2023 | ISSUE NO.47

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HINDENBURG RESEARCH: WILL IT SOAR OR CRASH AND BURN?

BY JAMES MACLEAN

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BANKING PANIC CROSS THE ATLANTIC

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FINANCE

Hindenburg Research: Will it soar to success or crash and burn?

BY JAMES MACLEAN

In January, a little-known hedge fund rose from obscurity to declare war on one of the world's richest men. Only months later, Hindenburg Research is at it again, taking aim at a legend of wall street.

Founded in 2017, Hindenburg Research derives its name from the German airship LZ 129 Hindenburg, which famously exploded upon landing in 1937. In line with its name, Hindenburg seeks out financial “manmade disasters” and bets against these companies by short-selling their stock. Their strategy involves compiling damning reports on these companies, often exposing accounting fraud, illegal activity, and misleading investors. Hindenburg’s critics have accused them of using misinformation to achieve windfall profits, while their proponents praise them for exposing fraud and deception. If Hindenburg continues on their current trajectory, they will inevitably become a household name in the very near future.

Hindenburg's first report targeted the electric vehicle company Nikola. This report exposed a wide array of lies and exaggerations around the effectiveness of Nikola's prototype hydrogen fuel cells. This included a video which appeared to show a Nikola prototype cruising at high speed along an empty road. In reality, the truck had been rolled down a gentle slope, powered by nothing but gravity. Hindenburg's report led to the arrest and subsequent conviction of Nikola's CEO and founder, Trevor Milton, for fraud. Nikola's stock now trades at $0.80, down from a peak of over $70. It's likely that Nikola's misleading of investors would eventually have come to light, but Hindenburg's report allowed investors to get out of the company and cut their losses early. While giving Hindenburg an exceptional return, this short sale helped to eliminate a bad actor from the market and reallocate capital to businesses which provide real value to the economy. Hindenburg's 2022 report on the Adani Group is their most publicised to date. The enormous Indian conglomerate operates everything from port management to energy generation throughout India. Hindenburg alleged that Adani was "pulling the largest con in corporate history". This caused the group to lose 108 Billion USD of value across their various businesses. Adani fought back against Hindenburg by attempting to paint their report as a "calculated attack on India".

Hindenburg has now leveraged their newfound fame and released another bombshell report. The subject of this report is legendary activist investor Carl Icahn's firm, Icahn Industries. Hindenburg likened Icahn Enterprises to a Ponzi scheme, claiming that Icahn "has been using money taken in from new investors to pay out dividends to old investors". They also noted that Ichan Enterprises appeared to be highly overvalued. Its stock trades at a 218% premium to its net asset value. This is particularly suspicious because most similar holding companies trade at a 5 to 20 per cent discount to their NAV, reflecting the management fees incurred. In the 48 hours following the release of this report, Icahn's stock is down 36% since the release of the report, and on the 10th of May, federal prosecutors opened an investigation into the firm. This report has also triggered the largest backlash of any released by Hindenburg. Icahn, known for his

his aggressive tactics and outspokenness, lashed out at Hindenburg, stating, “Hindenburg Research, founded by Nathan Anderson, would be more aptly named Blitzkrieg Research given its tactics of wantonly destroying property and harming innocent civilians.”

Hindenburg’s staggering success is somewhat of a mystery. Despite their skyrocketing popularity, Hindenburg remains a ‘black box’. The size and leverage of their positions are publically unknown. Additionally, founder Nathan Anderson is an anomaly among his hedge fund manager peers. He attended the University of Connecticut before working as an ambulance medic in Israel. Anderson then worked in public policy in Jerusalem before returning to the U.S. to work as a salesman at the data company FactSet. Anderson has criticised mainstream institutional investors' conformity, calling their analysis “run-of-the-mill”. It’s clear that Anderson’s style of analysis is anything but. Hindenburg’s forensic approach to research often uses sources which would look more at home in a CIA intelligence briefing rather than an equity research report. Examples of this include leaked emails, whistleblowers and recorded phone conversations.

Short-selling can be extremely risky. The strategy relies on large sell-offs to generate returns, and firms such as Hindenburg likely operate with a high degree of leverage, making their potential losses enormous. Additionally, their unorthodox tactics mean that Hindenburg is treading a fine legal line. Many of their targets have in the past attempted legal action. Considering Hindenburg has wiped hundreds of billions off their targets’ market capitalisations, a successful lawsuit could ruin them. However, none have succeeded so far, and Hindenburg is careful never to make claims that they can not back up. Evidence of this is the multiple federal investigations that their research has sparked.

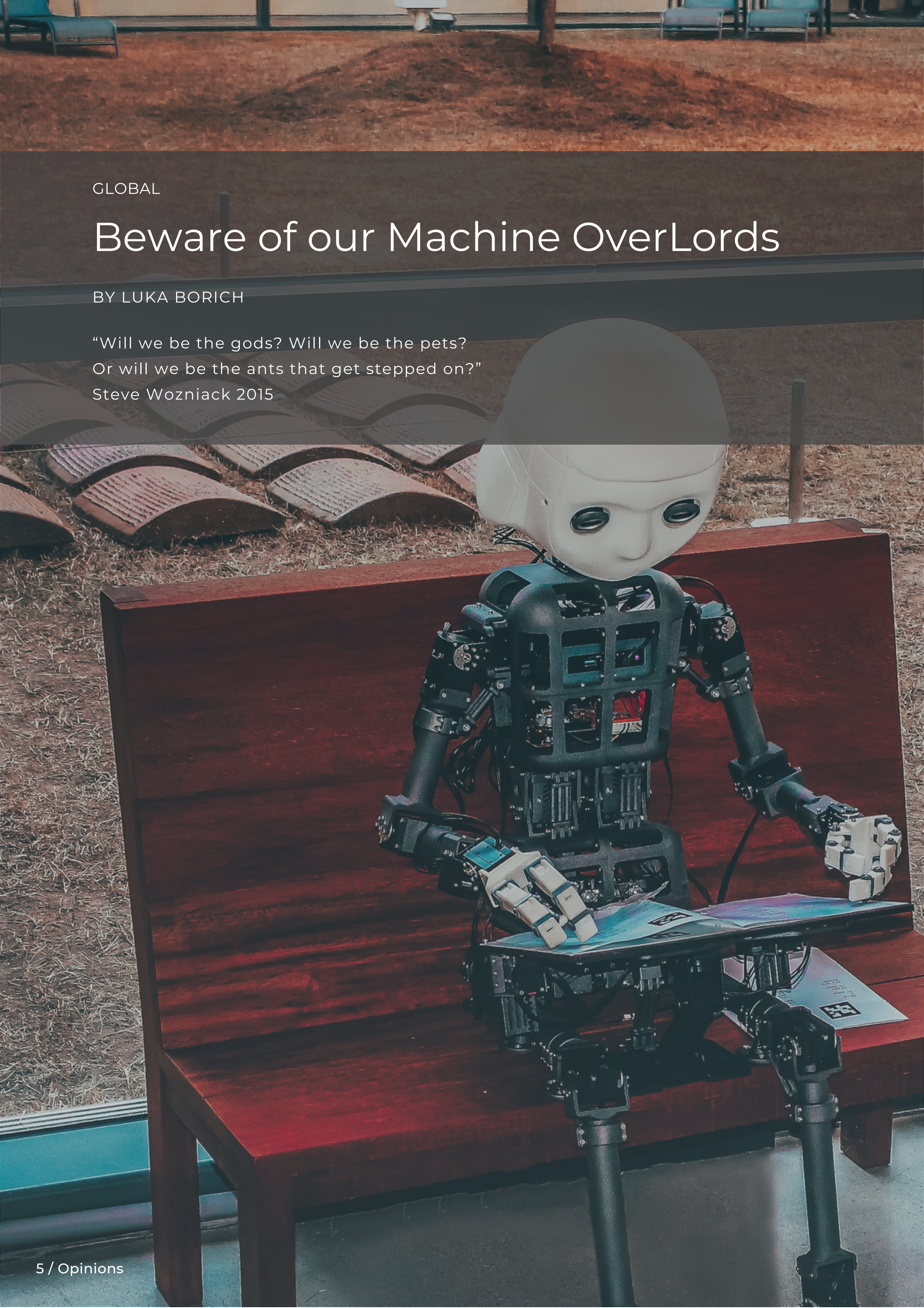
Anderson’s ability to sniff out fraud and malpractice where nobody else has thought to look is sure to make Hindenburg a giant among activist investors. Hindenburg’s capacity to effectively profit from these companies will only increase as their public profile grows, exposing their reports to more and more investors. The fact that Hindenburg keeps the details of their positions private also works in their favour. The public doesn’t know at what point Hindenburg has cashed out their short positions or if they have at all. This helps to prevent “short squeezes” or similar counteractions from other firms. While this secrecy also means that no prediction of their future success can be certain, their astonishing track record positions them as one of the most interesting and promising hedge funds in the world. Hindenburg has shown no signs of slowing down. If their rise to power continues, they are bound to be a titan of wall street in no time.

GLOBAL

Beware of our Machine OverLords

BY LUKA BORICH

“Will we be the gods? Will we be the pets?
Or will we be the ants that get stepped on?”
Steve Wozniack 2015



It is hard to pinpoint the exact moment humans lost the intelligence battle to the machines. Perhaps some might say the strides of machines outgrew human strides during the Industrial Revolution. Maybe the late great Alan Turing admitted defeat on our behalf when he formulated the Turing Test. People are waving the white flag after the release of ChatGPT. Elon Musk and a growing list of his contemporaries seem to think if the battle is not lost, it will be soon. Can anything be done about this?

Personally, I think the final straw came during 'The Brain's Last Stand'. This is the infamous chess match in 1997 between Garry Kasparov, arguably the greatest chess player of all time, and DeepBlue, an AI machine. Garry lost decisively over the course of 6 games.

Musk and many other leading voices in the space felt so strongly as to pen an open letter voicing their concerns. They are concerned about bias in machines, automation of jobs, and the creation of "nonhuman minds that might eventually outnumber, outsmart, obsolete and replace us". My concern is this has come far too late.

It is admittedly difficult to parse what to make of the letter. We operate in a capitalist and cut-throat society. Given this backdrop, you would be forgiven for seeing this as anything more than profit-motivated tech moguls trying to hinder their competitors.

Conversely, many of the letters' signatories are leaders in the space. They may be as qualified to understand potential dangers of AI as they are likely to be able to profit from it.

None of this is to say that the letter can be ignored. At best, I think it is relevant to trust what they say and be skeptical of why they say it. I am no Musk defender and have been critical of him in this publication previously. But if you believe what he says about AI is true, then Musk must wonder what we do: are we all screwed?

At a tertiary student level, it's hard to see how tools like ChatGPT cause more harm than good. At a professional employment level, the concern is that AI will lead to mass job redundancies.

Many know about Kasparov's loss in 1997. It was widely publicized. What people may not know is that a year earlier, in 1996, Kasparov had decisively defeated an earlier version of the same AI model.

That is the scary thing about AI. It is difficult to project advancements of AI in magnitude and timeframe. Machine learning is inherently designed in this way.

The enduring question remains: what can we do about the problem of AI? Advancements in AI have produced too much value, for both company and customer, that businesses will inevitably chase development of AI. Suggestions of freezing development seem silly in this sense; nevermind that it would be almost difficult to enforce globally.

The temptation is to do the inverse; an ‘arms race’ of sorts among entities; governments and businesses. To have a super-intelligent AI that no one else does would be to win the world. But this only accelerates our path towards the ‘computer overlord’ Terminator world we are trying to avoid. AI is – at present – unfeeling. It need not become randomly malicious, or even slightly perturbed, by humanity as a species. As many point out, if we no longer align with its goals such as efficiency, it may likely be capable of eventually removing us from the equation.

At risk of sounding a tad bleak, there appears to be no good options. We likely can’t stop private and public development of AI capabilities. We could pursue it in an effort to get ahead, but this may thrust us into the future Musk and others think is inevitable eventually. A Manhattan-project equivalent becomes a lot scarier when the bombs might blow their makers up.

In truth, I hope super-intelligent AI is a long way off. Whether that’s right or wrong remains up for debate, although history suggests we have bad intuitions about our ability to predict AI. You never know. It could just be fear-mongering: Musk and Woz could be wrong. GPT-4 might tell you that if you ask; just be weary of what GPT-5 might say.

GLOBAL

Is Remote Work Here to Stay?

BY FAHEEM IBRAHIM

Remote work has become a hot topic in recent times, thanks to new technology, the COVID-19 pandemic, and the evolving needs of the workforce. It's clear that remote work isn't just a passing trend but a lasting change in the way we work. This shift will impact many aspects of the corporate world, from office spaces to how people engage with co-workers. In this article, I'll explore the future of remote work and how it will affect the corporate environment moving forward.

The idea of working remotely has been gaining traction for a while now. Many companies have started offering more flexible work options and remote positions. When the COVID-19 pandemic hit, businesses had to adapt quickly to a remote work environment. This sudden change showed that a lot of jobs could be done remotely without losing productivity, making remote work more widely accepted. Now that the pandemic is easing, it's likely that remote work will become even more popular. A survey by Vintage has shown that 60% of SME CEOs plan to let employees work remotely at least part of the time. This trend will most likely continue as technology continues to improve, making it easier to communicate and collaborate from anywhere.

Speaking from personal experience, the shift toward remote work has had a direct impact on my own family. Before COVID, my parents would work five days a week at the office. Now, they work three days in the office and two days from home. This hybrid approach has allowed my parents to better balance their work and personal lives, and I think the same could be said for many other working professionals living in New Zealand. For many New Zealanders, transportation to and from work can be a significant time drain (especially in Auckland traffic). This not only leads to lost productivity but can also contribute to a reduced work-life balance and a negative environmental impact due to emissions from vehicles. The rise of remote work offers a solution to this issue, allowing workers to reclaim their valuable time that is lost stuck in traffic.

The growth of remote work is also changing how we think about office spaces. Companies are trying out hybrid work models, where employees can work both from the office and remotely. This is causing organisations to reconsider their office space needs. Many are choosing to use smaller, more flexible office spaces. In the future, offices might become a place for collaboration and creativity, with a focus on shared spaces that encourage teamwork. This could lead to more flexible office designs, with things like hot-desking, breakout areas, and adaptable meeting spaces.

With remote work becoming more common, companies will need to think about new ways to keep employees engaged and happy. Remote workers might feel isolated, struggle with work-life balance, or find it hard to stay motivated. To tackle these issues, companies need to find new ways to maintain a strong company culture and support employee well-being. One way to do this is by using technology to create virtual team-building activities, regular check-ins, and informal chat channels. Companies should also train managers on how to lead remote teams effectively and spot signs of burnout.

The shift towards remote work has big implications for attracting and keeping talented employees. Remote work lets companies look for talent all over the world, giving them access to a more diverse and skilled workforce. This also means more competition for top talent. To stand out, companies must make employee satisfaction a priority and offer competitive benefits packages tailored to remote workers. This could include flexible work hours, mental health support, professional development opportunities, and home office allowances.

The future of remote work will bring both opportunities and challenges for the corporate world. Companies that effectively adapt to these changes and prioritise employee needs will be better positioned to succeed in this new way of working. By fostering a culture of flexibility, innovation, and collaboration, businesses can make the most of remote work and drive growth and success in the coming years. It's exciting to see how the future of work will unfold and how it will shape our careers and professional experiences.

GLOBAL

Diamonds in the Rough: An overview of deep value investing

BY EVAN MANNING

Warren Buffett's investment strategy today could be described as trying to buy 'wonderful businesses at fair prices', and his investments in companies like Coca Cola, Apple or Geico spring to mind. Yet in his younger years – when he was making returns of around 30% a year – his primary strategy was practically the opposite. In the 50's and 60's, he focused on buying companies that might have seemed like terrible investments at first glance. These companies would often be facing extreme financial distress and would trade at very depressed prices. This approach received high praise from legendary investor Benjamin Graham, and helped my favourite investor Seth Klarman build one of the most successful hedge funds of all time. What is the strategy that has helped build all these fortunes? Welcome to the world of deep value investing.

This approach (also referred to as 'net-net investing' or 'cigar butt investing') is a philosophy that many legendary investors swear by. This article provides an overview of this strategy, why it has worked so well for these big-name investors, and whether it can be highly profitable in today's world.

What is net-net investing?

If Buffett buys wonderful companies at fair prices, deep value investing can be thought of as buying below-average businesses at dirt-cheap prices. To be more specific, it is the practice of buying companies that are ultra-cheap relative to conservative valuation frameworks. One popular subset of a deep value approach is net-net investing, which I will illustrate here with some basic accounting. The most used metric in net-net investing is "Net Current Asset Value" (NCAV). NCAV is equal to Current Assets – Total Liabilities, so if a company has $10m in cash, $4m in accounts receivable, its current assets are $14 million. If the company has $8 million in liabilities, then its NCAV equals $6m.

NCAV can be thought of as the conservative liquidation value of a company; if you were to liquidate a business then you must pay all its liabilities but it's almost guaranteed that you can recover at least the liquid assets of the business. Most companies have a negative NCAV. This makes sense, since we are taking a small subset of a company's assets but then subtracting all of their liabilities from this figure.

Yet there are some companies that have a positive NCAV, and there are even companies that have a NCAV higher than their Market Capitalisation (the company's total worth on the stock market). This rare subset of companies, called 'net-net stocks', present a very interesting opportunity.

Imagine you're sitting on a large sum of money, and someone offers to sell you an entire business at a price equal to 50% of its NCAV. You would likely think of this deal as a no-brainer. You know that if you liquidate the company, you'll almost certainly make a return that is at least equal to the business' NCAV. If you're buying the whole company at half this valuation, then it seems like you've found a near-guaranteed way to double your money quickly.

Even if you bought this entire company without an immediate plan to liquidate, its extremely cheap price might still make it an attractive investment. Since you're buying the business at such a low valuation, there is limited downside risk, but if the performance of the business improves even a little bit, then the market might turn to view this company favourably and the price could shoot up tremendously. One of Warren Buffett's first hugely successful investments was buying a majority stake in a struggling Windmill company Dempster Mill in 1956, on which he tripled his investment after the business turned around.

Few of us have the money to buy an entire business, but sometimes publicly listed companies trade at prices well below their NCAV per share, and buying at this price has the potential to turn out very profitable for a small investor. Net-net investing is a subset of deep value investing, and there are other valuation methods that you can compare price to, as well as many other things to consider, but these examples should give a good indication about the basic philosophy.

Why might a stock trade below a conservative liquidation value?

One of the questions that might have come to mind while reading the previous section is why a business would possibly be trading below its liquidation value. The main reason is that investors think that the company is going to run itself into financial ruin in the future, and think that management will not liquidate before that happens. For investors that believe a company will burn through all its cash in the next few years, selling for below liquidation value is better than not being able to sell at all. These stocks could be so cheap for a variety of other reasons too: potentially ruinous litigation, previous fraud by management, or losing an essential customer could all depress a share price.
Investors should be wary of purchasing net-net stocks; they are cheap for a reason.

How can you make money on these opportunities?

If you own a net-net stock, the worst thing that could happen is that the company continues to struggle and slowly burns its cash for years and years until your investment is worthless. But what things can occur to make these investments profitable? We already touched on liquidation. If you buy shares in a deep value stock, and then an activist investor buys up a majority stake and liquidates the company,, this can be very profitable for you - even though the word liquidation terrifies most investors! This is because shareholders are entitled to the proceeds of the liquidation once creditors are paid. If the amount you receive is greater than what you paid for the shares, you've made money on your investment.

Liquidation aside, improvements in general business performance can help raise the share price. A stock trading below liquidation value signals very low investor confidence, but even a slight uptick in performance can convince many investors to pay at least liquidation value for the stock, providing you a nice return if you bought the stock at a large discount to NCAV per share.

To give a real-world example, Rhythm Co. Ltd. is a watch and clock manufacturer founded in 1950 and listed on the Tokyo Stock Exchange. In early 2020, its shares were trading at around 600JPY, a steep discount to its NCAV per share. However, even though the company has not pulled off any miracles in the past few years, small, simple improvements in profitability have been enough to sway investor sentiment about this company, and it now trades at 2005JPY. This company hasn't made many headlines, nor come out with any ground-breaking new products, yet observant deep value investors who realised that this company was a bargain in 2020 would be sitting on an impressive 300%+ return today.

There are other catalysts that can propel a depressed share price back upwards: appointing new management, fending off litigation, or being acquired can all change investor sentiment and provide a healthy return to net-net investors.

Is this a viable strategy today?

Financial markets were very different in the 1960s when Buffett was employing this strategy, so can this approach work effectively today, or is it a relic of the past? Academic analyses of net-net performance shows that they have performed surprisingly well even in modern times. Many research reports that conduct back tests over the last few decades show that net-net stocks as a group return 20-30% a year, far outperforming the market as a whole.

These stocks are rare to find on major stock markets, meaning you will likely have to search for opportunities on smaller exchanges. On the ASX and NZX, there are only 21 businesses that have a market cap lower than NCAV (with only one or two of them even worth looking at in my opinion!). One example that meets this criteria is Birdog Technology (ASX:BDT), a small Australian company that sells video hardware and software. As at 31 December 2022, the company had a NCAV per share of 0.20AUD and a share price of 0.16AUD. Since then, the share price has fallen nearly 20% to 0.13AUD. While I haven't done any extensive research on this company, this incredibly low valuation could signal an interesting opportunity for an investor, and might be a starting point for a deeper analysis into the company.

As with any investment decision, you should always research diligently and understand the risks associated with that decision. With that being said, if you're looking for unique investments that are off the beaten track, searching for good net-net opportunities just might be a ticket to outstanding returns.

MYOB Column

Predictive Analytics: How to Power Your Team With Data-Driven Strategic Decisions

Running a successful business requires attention and well-thought-out strategies. However, no matter how much care and planning you put in, these can often fall short when challenges arise.

More recently, businesses have become all too aware of this. Faced with unforeseen circumstances and challenging situations, many have had to be flexible and adapt how they work.

No one can predict the future. However, there are often clues that managers and employees can pick up on, suggesting where the business is heading. With these, businesses can be better prepared and implement change management models to take control of the situation and direct the business.

One way of identifying these areas is by using predictive analytics.

6 ways to power your team with data-driven strategic decisions

- Use predictive modelling techniques
- Anticipate future finances
- Prepare your resources
- Foresee problems
- Manage business risks
- Proactively improve experiences

Read the full article here

myob

Forsyth Barr FOCUS

Banking Tremors Cross the Atlantic

Ructions across the global banking sector has spread to Europe. On the heels of the collapse of Silicon Valley Bank and Signature Bank, the biggest US bank failures since the Global Financial Crisis, Credit Suisse has been rescued by Swiss rival UBS. The failure of one of the world's 30 systemically important banks is both remarkable and disconcerting. That said, all the banks that have failed in recent weeks faced idiosyncratic issues that are not widespread across the industry. Credit Suisse had been plagued by a series of scandals which had undermined customer confidence in the bank. While further failures are possible, even likely, we do not expect the crisis will become systemic across the industry.

Read the full article here.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