UNIVERSITY OF AUCKLAND INVESTMENT CLUB

INVESTMENT BULLETIN

STUDENT WRITERS - STUDENT OPINIONS

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The University of Auckland Investment Club
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The editor's note

WRITTEN BY NIKHIL LUTHRA

Welcome to the seventh edition of the UAIC Investment Bulletin!

As I am writing to you all, the weather is forecasted as rain for a week or two. I cannot help but notice the pathetic fallacy for us as this aligns nicely with the release of our exam timetables. With that being said, Level 2 seems to have been a nice breath of fresh air. I have managed to go back to the gym, the cricket nets, and driving range from time-to-time. Maintaining social distances of course.

This new level of social flexibility has reminded me of an important investment ideology. Peter Lynch famously preached that you should only "invest in what you know". He has also remarked that individual investors have unique perspectives on consumers and trends when compared to funds. Often quarterly reports are relied upon to realise a companies performance. However, Lynch often tells the story that he was motivated to buy Dunkin Donut shares simply because he enjoyed their coffee. Now, don't get me wrong, he analysed the companies financials and did his due diligence. But the underlying power of observation and the awareness of mind to realise trends set in motion this incredibly profitable trade.

Personally speaking, I remember when Pokemon Go was trialled in New Zealand. Anyone could see the instant success that it had; hundred would camp out in locations or go for 'Pokemon walks'. Simply put, you wouldn't have needed Nintendo's annual report to know that this product was a hit. Their share price jumped upon the world-wide release of Pokemon Go - up almost 100% in a month.

I suppose what I'm saying is, keep your eyes open. You might just spot a 100% gain running around.

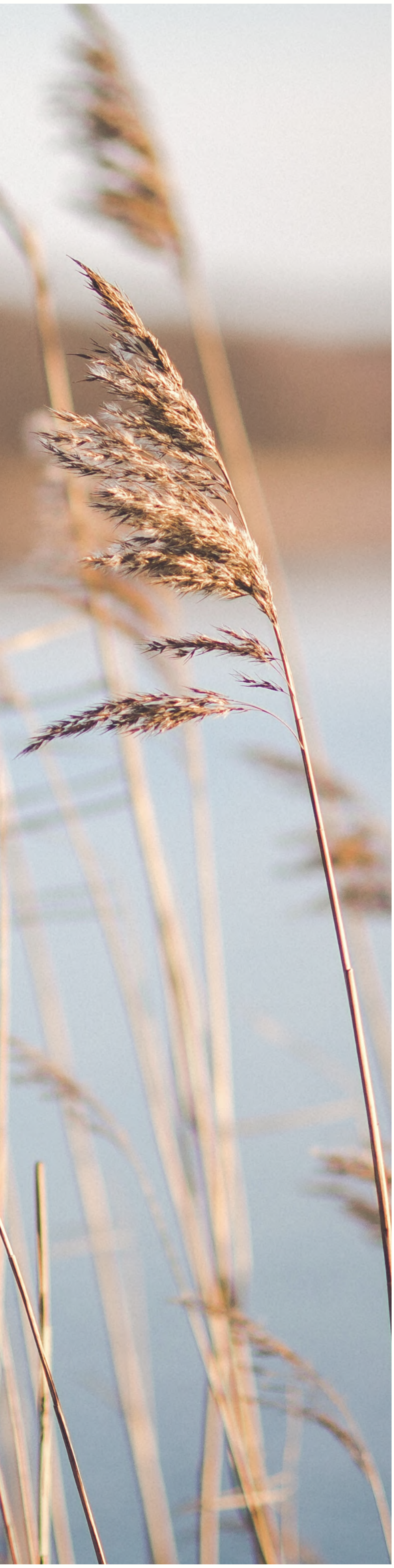
CONTRIBUTORS THIS WEEK

Sean Flower is keeping his sight firmly focused on the future. He explores the revolutionary meatless industry and the potential that it holds as a catalyst for change.

Neha Kumar combines her passions for sustainability and retail in her piece tracking the demise of fast-fashion. An industry once dominant, does COVID-19 spell the end for the likes of Zara and H&M?

Sam Jain is pivoting from his previous article on the secondary sneaker market and alternative investments. Taking a more conventional, yet interesting lens to explore the rise of Zoom Video Communications and whether it is all that it's hyped up to be.

Kyle Quindo is an avid investor in his spare time. This week he outlines some of the lessons he learnt during the recent oil price contraction. Lessons that may seem simple, but uphold the principles of investing for both the novice and expert alike.



An update from the fund

A RUNDOWN OF THIS WEEKS PITCHES WRITTEN BY IC CHAIRMAN NEHAAL RAM

AVITA MEDICAL

Pitched by Anna Marsden, Junior Equity Analyst:

Avita Medical (ASX: AVH) is a global regenerative medicine company focused actively on skin regeneration. With their main patented product for skin regeneration (RECELL) gaining FDA approval, Avita remains dynamically placed to lead the burn treatment market. Operating within an industry that is positioned to be worth USD 3B by 2026 and uprooting outdated skin grafting methods, Avita is poised for substantial growth opportunities. Furthermore, a well-planned business development plan to expand within the burns market and capture adjacent markets delivers strong economic moats for Avita's core competencies. However, Avita is also prone to the pains of undetermined roll-out success, patent expiry, and is yet to deliver a maiden profit (given emphasis on patent clearance and internal R&D pipeline). The Investment Committee moves to pass Avita Medical to the valuation stage based on its immense growth opportunities. The vote passed at 8/12, with the valuation team headed by Anna Marsden, Daniel Vaz, and Nehaal Ram.

"You'll be burning to invest in this company" - Anna Marsden, Junior Equity Analyst

Risk and diversification

PART 1: WRITTEN BY CHRISTOPHER WONG

WHAT IS RISK?

In general, we think of risk as negative. Risk involves exposure to some type of danger and the possibility of loss or injury. It is inherent when driving, walking on the street, and many other daily activities. In the sphere of investing and finance, the risk is simply the variety of outcomes or the probability that an investment's actual performance differs from an expected outcome. Risk may mean that an investor loses a lesser, equal, or even greater amount of capital than originally invested. It can always be positive, that the outcome is better than expected.

Through analysing historical behaviours and performance, we attempt to quantify risk. The most common measure of risk is the standard deviation because while not completely true, (see Nassim Taleb "Black Swans"), investment returns are believed to be normally distributed. Standard deviation represents the variation of an investment with the historical average. Though it is impossible to eliminate all risks, it is possible to reduce it.

SYSTEMATIC AND UNSYSTEMATIC RISK

Systematic risk is also known as market risk or volatility. It can be described as the risk which is embedded into the economy or broader market, not only a particular stock or industry. Often, systematic risk is caused by political or economic events at a national or international level. This form of risk is unpredictable and impossible to completely avoid, however, the impact on you can be reduced through diversification to different asset classes, known as the 'asset allocation strategy'.

Meanwhile, unsystematic risk is the risk that is intrinsic to a specific company. The decisions made by management, company news, product successes and failures, and the ability to generate revenues and profits are all examples. The historic extent of unsystematic risk can be measured by "Beta". Beta is a measurement that compares the risk of a security, fund, or portfolio to a broader market. A Beta of more than 1 means the investment has historically contained more variation (standard deviation of returns) than the market. A Beta greater than 1 indicates less variation than the market. Finally, a beta of 1 indicates return variations equal to the market.

The future of food

WRITTEN BY SEAN FLOWER

A CULTURAL DEVICE, A CELEBRATORY ESSENTIAL, A FORM OF UNITY WITH THOSE AROUND US, OUR MOST PRIMAL NEED. SOMETHING WHICH MANY OF US TAKE FOR GRANTED; FOOD. NOTHING ELSE IN THE WORLD ILLUSTRATES THE CONNECTION BETWEEN PEOPLE AND PLANET QUITE AS MUCH AS FOOD DOES. BUT WITH THE ADVENT OF MODERN INDUSTRY, INEVITABLY COMES AN INCREASING DISCONNECT BETWEEN WHAT WE EAT, AND WHERE IT COMES FROM. A SUPERMARKET SHELF ISN'T QUITE THE SAME AS HUNTING A WILD ANIMAL. THIS IS AN INCREDIBLE TRIUMPH IN REGARD TO WORLD DEVELOPMENT. HOWEVER, IT DOES COME WITH ITS CONCERNS. THE MEAT INDUSTRY AND ITS QUESTIONABLE SUSTAINABILITY.

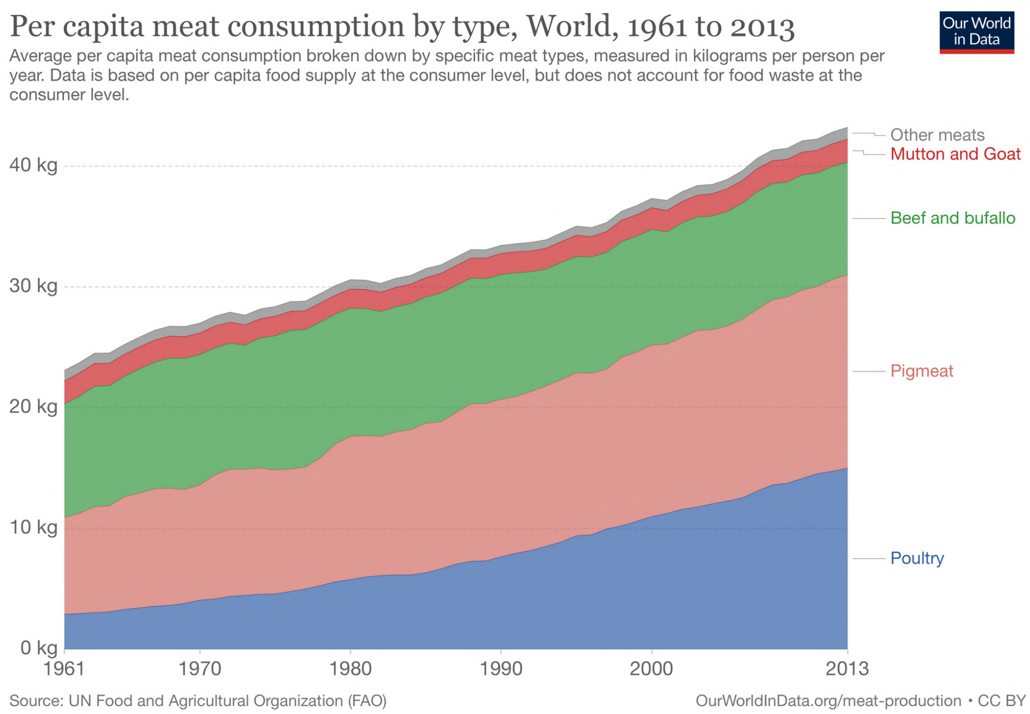
I'm not a vegan, but both the environmental, and health costs of predation en masse is making me question the sustainability of an increasingly meaty diet. Principally, with the world's meat consumption rising from around seven million tonnes in 1960, to more than 300 million tonnes per year, driven by both an increasing population, income levels, and its corresponding per-capita consumption.

With livestock emissions making up ~15% of global greenhouse gas emissions, what we eat is vital consideration in respect to the global response to climate change. With studies[1] illustrating that without severe cuts this increasing trend, agricultural emissions could take up the majority of the world's carbon budget in 2050 – livestock being a major contributor. A study[2] by the University of Otago also found that if every NZ adult turned vegan and minimised food waste, the emissions saved would equal ~60% of that from cars and vans. As such, the environmental concerns alone prove a compelling argument for an amendment to the way we produce and consume food.

The consumption of meat also comes across as concerning regarding human health. Red and processed meat consumption is associated with increases in total mortality, cancer mortality, and cardiovascular disease mortality across numerous studies. Organisations such as the American Heart Association and the World Health Organisation (WHO) suggest cutting back on meat consumption, with processed meats categorised by the WHO as a Group 1 carcinogen. This only adds to the environmental sustainability concerns and raises red flags around the increasing quantity we consume. However, the area is up for debate in the fact that it ignores alternative foods consumed, so it comes down to how individuals manage their overall nutrition.

I get it though, people love meat. I'm not an advocate for a belligerent response to these growing concerns, but for increasing awareness over what we consume and its flow-on effects. With veganism rising from around one percent to six percent of US consumers over 2014 – 2017, it seems this awareness is in fact growing. Consequently, so is the market for plant-based products, with UBS predicting the value of the plant-based protein and meat alternatives market will increase to $85 billion in 2030 in the U.S alone, from around five billion at present, with the value of the global meat market currently sitting at ~$1T for comparison.

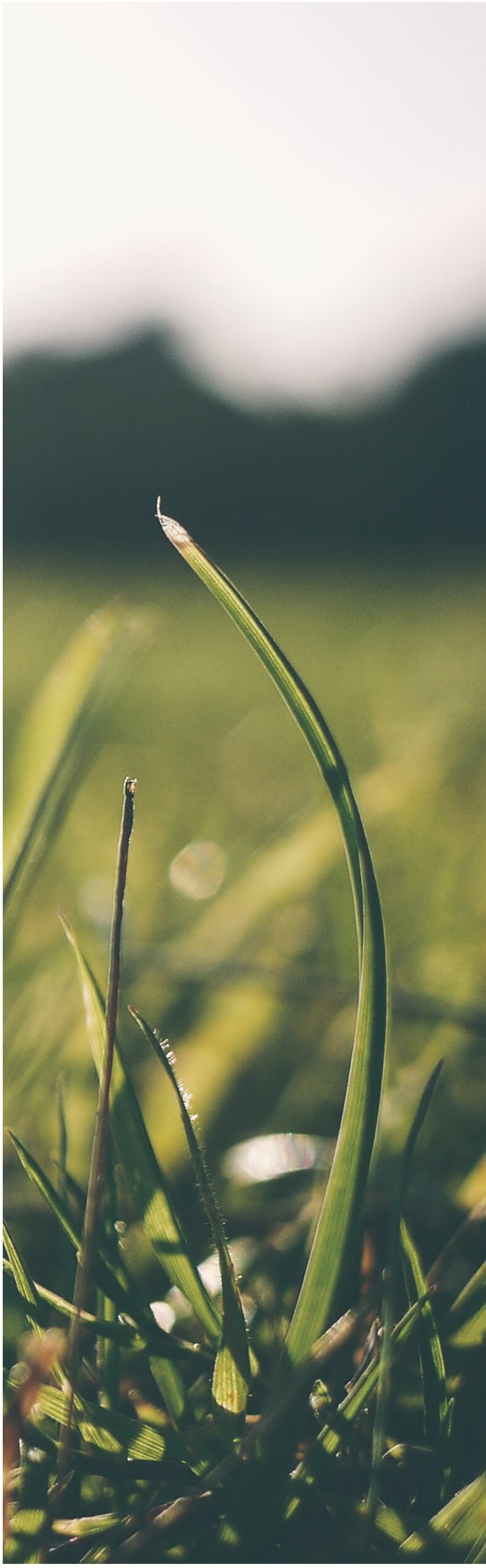
The major disparity in generational interests is a key growth driver for the meatless industry. The seismic shift in consumer attitude towards the wider environmental and



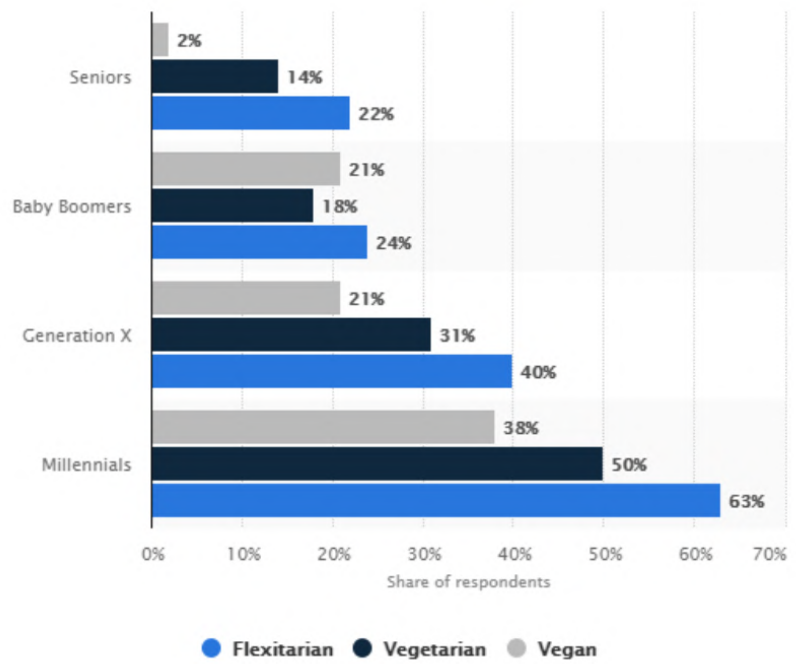
ethical implications of consumer choices operates behind this, as well as American millennials being much more willing to pay a premium for food that offers benefits beyond basic nutrition than American boomers. As Gen Z approaches maturity and generational income rises, the average consumer will be notably different to todays, marking a capitalisable shift in priorities.

Gone are the days where those opting for a plant-based meal were extremely constricted in food options and had to eat dry compressed grain food as a substitute. Meatless meat and faux dairy products are taking the world by storm, as well as the adoption of plant-based dining options by the hospitality industry who hope to take a chunk of the growing segment customer segment. With mainstream chains like Burger King, Carl's Jr., KFC, and McDonalds adding plant-based options to their menus, and over 50% of U.S. restaurants now offer such options too. Companies such as Beyond Meat and Impossible Foods are capitalising on this change on supermarket shelves, and with Beyond now public, and Impossible's IPO on the horizon, we are truly at the cusp of a major shift.

I personally do not believe this means the meat sector will fade away from existence. It will always have its place in the food industry, albeit at a much less extravagant level. New Zealand's meat exports I think, will always have a place as a revered, natural, high-quality ingredient. Although the face of the food industry is set to change, I envision a shift in emphasis, awareness, and consequently the food market, not a complete overhaul of what we eat; the future will hold a variety of delicious staple protein sources, not just animal products. Being aware of this change is a paramount consideration for any investor in the food industry, and a theme for the rest of us to keep in mind regarding our own portfolios.



US Consumer diet preference by generation



Source: Statista

[1] Bajželj, B., Richards, K., Allwood, J. et al. Importance of food-demand management for climate mitigation. Nature Clim Change 4, 924–929 (2014). https://doi.org/10.1038/nclimate2353
[2] Drew, J. M. (2018). Healthy & Climate-friendly Eating Patterns for New Zealand (Thesis, Bachelor of Medical Science with Honours). University of Otago. Retrieved from http://hdl.handle.net/10523/8058

The slowdown of fast-fashion

WRITTEN BY NEHA KUMAR

FAST FASHION IS WHEN TRENDY CLOTHES THAT ARE INEXPENSIVE TO MAKE ARE SOLD TO CUSTOMERS. THE PRODUCTS ARE USUALLY LOW QUALITY AND DESIGNS CAN BE MADE QUICKLY MEANING MORE SEASONS AND STYLES CAN BE RELEASED. BUT WITH A SHIFT IN CONSUMER MINDSETS TOWARDS STATEMENT PIECES, ENVIRONMENTAL IMPACT, AND WORKING CONDITIONS.

HOW WILL THE FALL OF FAST FASHION IMPACT THE ECONOMY AND SOCIETY?

Brands like Forever-21, H&M and Zara are known solely for their fast-fashion operations. Their products are made with low-quality material and relatively cheap to mass manufacture, usually relying on workshops with poor working conditions and cheap labour to keep costs low. This allows for the end product to be relatively cheap, even with a markup. Zara has a new delivery of products every two-weeks, H&M the same. The new stock replaces the old and once old designs are out of stock or retired they are never re-introduced. Because of this scarcity, the traffic in these stores is much higher than others. Forbes reports that while the average loyal customer visits a store four times per year, a loyal Zara customer is more likely to visit up to 17 times per year. The fear of missing out on cheap fashion-forward clothing entices shoppers to visit and buy, more often.

Another world of fast fashion exists entirely online. Many fast fashion companies have built their entire brand on social media. Fashion Nova and Meshki are a few examples. Both these brands developed a following on Instagram by using influencers to endorse their products to their followers and don't have physical stores, instead are based entirely online (although Fashion Nova now has six physical stores, all in California). The campaign was successful as Fashion Nova became the most searched fashion brand of 2018. They're known to create cheap knock-offs of high-end clothing and be able to have them ready to ship shortly after. These brands rely on the trends and high fashion influences to entice customers to buy their knock-off and move on to the newest trend, stopping production of the older products as their demand decreases.

The downsides of constant manufacturing of products are that there are large environmental impacts. According to The Guardian, In 2015 textile production managed to create more greenhouse gasses than international flights and maritime shipping combined. In 2017, synthetic fabrics such as polyester and nylon, which many fast-fashion clothes are made of, used up to 342 million barrels of oil (almost 55 billion litres), and many of the chemicals that are used in the process are simply dumped into rivers, as disposing of them responsibly would be incredibly costly, especially at the rate of fast-fashion production.Zara has managed to keep most of its production in-house reducing the cost of outsourcing, however, their business strategy is still fast fashion based which still harms the environment.

Sweatshops are used to keep labour costs down. These places often have long hours, terrible working conditions and unfair wages. Many of the clothes made in H&M come from sweatshops in Bangladesh and China, which have 3.5 million and 482 million people working in sweatshops respectively. A sweatshop in LA which pays its workers less than $3 an hour is where most of the clothes that Fashion Nova sells used to come from.With the general public becoming aware of the damage their spending habits could be making, many people are changing the way they buy. As people begin to take note of their environmental impact, many people are willing to pay more to invest in higher quality pieces that will last longer and continue to stay fashionable. Many people are turning to thrifting, buying second-hand clothes to reduce waste, which is so popular there is now a sub-culture of thrifting in fashion. Part of the expectation on brands by consumers is that they use environmentally friendly methods and ethical practices when manufacturing and selling products, and has slowly become a staple in building brand loyalty. Fast fashion brands have taken notice of this; Zara has publicly announced that it is moving to make its clothes from 100% sustainable fabrics by 2025. H&M has released an environmentally conscious clothing line. The issue with these claims, however, is that words such as 'sustainable' and 'environmentally conscious' don't have any set definition to create guidelines for the companies; so, in theory, the company can make claims such as a piece of clothing was made using a percentage of old clothing, and not have to disclose how much waste or unethical labour was used to make the piece of clothing. Unfortunately, companies cannot be left to do the right thing and must have supervision.

Forever 21, once a leading fast-fashion brand, filed for bankruptcy in 2019, after being unable to keep up with changing consumer tastes and spending habits to online stores, making it a precautionary tale for brands such as Zara and H&M. H&M and Inditex, Zara's parent company, are struggling during this shift in consumer mindsets, which is reflected in their stocks; their highest peaks in 2015 and 2017 respectively. Zara has had a steady stock for the past 5 years, while H&M has steadily been declining since 2015. One of the many reasons being their inability to respond and adapt to the changing consumer mindsets of sustainable manufacturing. H&M's lowest point was in September of 2018 around the time articles were released of the brand still using sweatshops and the backlash following that. Zara was able to recover from their sustainability issues by putting into effect their efforts to seem more sustainable.

Inditex also operates in 93 markets globally and has other subsidiaries such as Pull&Bear and clothing manufacturing companies such as Massimo Dutti. H&M has 6 subsidiaries all of which are fast-fashion brands which are also struggling. Inditex can streamline their products using their own manufacturing companies and sell the finished goods in their clothing brands, effectively keeping production 'in-house' and cutting costs while being able to produce at a fast pace.Now put into effect the shifting consumer mindset away from fast fashion and towards higher quality goods, Zara seems to be in a position to sell higher quality products, or at the very least put in more sustainable practices than H&M. Ultimately Zara's ability to adapt to consumer expectations, while still being able to streamline production will keep Inditex steady and likely create another permanent drop for H&M.

While it's important that fast fashion dies out, it's equally important that it fades rather than just halts. The immediate impacts of this will be a better environment, which many are now seeing the importance of in the wake of a pandemic. It will also mean more savings for many people making individuals more financially secure. Clothing and footwear is about 4% of consumer expenditure yearly (around NZD$5.3 billion), this number could significantly decrease creating less economic activity, meaning our GDP could take a hit as well. Furthermore, countries like Bangladesh and China where many of these clothes are made will lay off sweatshop workers which will increase the unemployment rate of those countries. Needless to say, there is a dependency on fast fashion in our economy that must be accounted for when attempting to phase out fast fashion, because ultimately doing so will be more beneficial in the long run.

The death of fast fashion comes from the social consciousness of society as more people are moving away from low-quality trend pieces, towards higher quality products that last longer and could survive the ever-changing fashion trends, effectively phasing out fast fashion. As pressure continues for fast fashion companies to switch to environmentally friendly and ethical manufacturing practices, we must understand the consequences of weaning off of fast fashion, both positive and negative, and for the individual and society.

The rise and rise of Zoom

WRITTEN BY SAM JAIN

AT ITS CURRENT MARKET CAP OF $US 45B, ZOOM'S VALUE IS GREATER THAN THE TOP 5 AIRLINES IN THE US COMBINED. HOWEVER, THE METEORIC RISE OF ZOOM IS PLATEAUING.

DOES THE FUTURE BIDE WELL FOR THE $US 45B COMPANY?

During lockdown, all of us to some extent would have used Zoom. Whether it was for work or education, no one can deny that the company has formed an important part of the transition to a quarantined lifestyle. It is precisely because of this that the stock has soared in the past few months. In January this year, the NASDAQ listed company traded at a peak of $US 74. Today it trades at $US 171.

The Zoom that I am referring to is officially named Zoom Video Communications with a ticker of ZM on NASDAQ. Funnily enough, another unrelated company by the name of Zoom Technologies was listed with a ticker of ZOOM on Nasdaq. This "fake" Zoom saw a 1800% increase in price at its peak this year and eventually had to be delisted by the SEC because investors who intended to invest in Zoom Video were accidentally investing in Zoom Technologies!

The above example can be a testament to the irrational euphoria gripping investors purchasing Zoom. However, the hype around Zoom (Video) does have some legitimacy. The number of meeting participants has grown from roughly 10 million in December 2019 to almost 300 million in May 2020. Zoom's main advantages against competitors was that it didn't require an account to join calls and that meetings were able to be recorded . Additionally, it had a much more friendly user-interface and more stable video quality. However, recently, competitors like Skype have implemented similar features in order to match Zoom's model. For example, Skype has recently introduced a "meet now" function that enables users to join meetings without setting up an account.

Zoom has also faced its fair share of problems. Security issues have plagued the company recently and many businesses have been concerned about the risk of having their confidential data be compromised. In fact, these issues were so widespread that in March the New York State Attorney's office launched an inquiry into the company to try and address its security concerns. Prior to this, Zoom users were facing targeted harassment by internet trolls, exploiting loopholes in the software. Such events were known as "Zoombombings" and often contained offensive and provocative messages. In order to amend such issues, Zoom recently acquired an IT security company named Keybase, in order to try and secure their network from threats.

Another key issue that could face Zoom shareholders is the inability of the company to convert usage into revenue. Currently Zoom operates on a freemium model. Baseline services such as 1 on 1 video calling are free, whereas more advanced services like large conference calls require a paid subscription to access. This presents a great challenge to ZOOM as it greatly reduces its ability to capitalize on the enormous rise in usage it has experienced lately. In fact, in its latest annual report, the company forecasted FY21 revenue at $910M which is slightly lower than the analyst estimates averaging $921.8M. These estimates give an EPS of roughly $0.45 for the same period. Based on the current price of around $165 this would give a forward P/E ratio of 366, which even for a tech company is on the very high end. Furthermore, these forecasts probably assume that current levels of usage can be maintained in the future. With the Covid-19 crisis declining in most countries, restrictions are set to ease and many businesses will return to normal function within a few months, significantly hampering Zoom's usage. This will particularly be felt in more premium features as many businesses will no longer require services such as conference calls that exceed 100 participants.

Zoom is also facing competition from services offered by well-established tech giants. Microsoft (which owns Skype and Microsoft Teams) and Google (which owns Google Meet) are ramping up efforts in order to increase their market share. The key advantage these tech giants have, is the fact that most businesses are already clients and use their services extensively in other areas. For example, Skype for Business and Microsoft Teams form a fundamental part of many companies internal communications systems and this makes it extremely easy for them to transition away from Zoom. Microsoft recently reported that 91 of the 100 largest US companies were regular users of Microsoft Teams. Another competitor, Google Meet, is heavily integrated with Google's services such as Suite and Gmail, whose clients include large fortune 500 companies like Colgate-Palmolive and Verizon.

Overall, the Covid-19 crisis might have presented the perfect opportunity for Zoom to grow, but the question remains whether it is able to maintain this in the future. Given the fact that analysts are starting to make bearish bets on the company this does not seem to be the case.

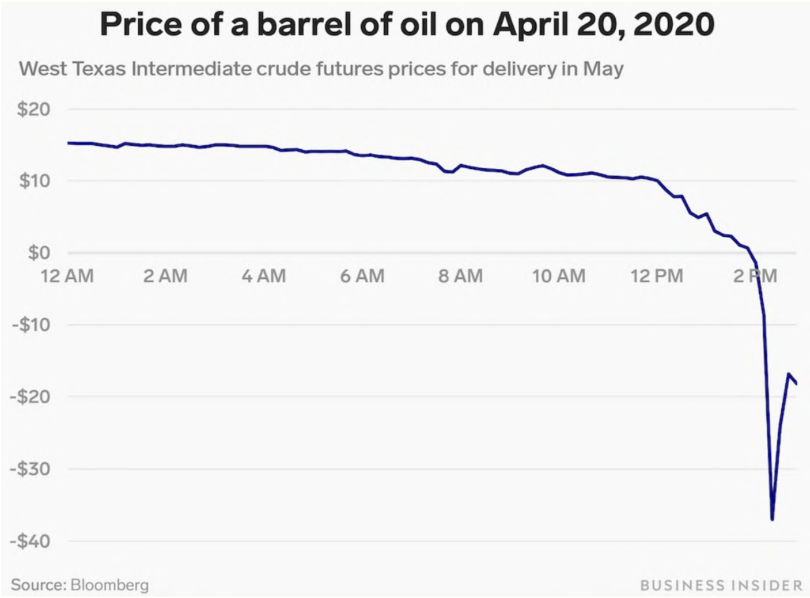
Given all of these factors, is a market valuation of $US 45 Billion really justified?

I went long oil…then it went negative

WRITTEN BY KYLE QUINDO

I WOULD SAY I HAVE A THICK SKIN WHEN IT COMES TO GETTING MY FACE RIPPED OFF IN A TRADE/INVESTMENT. PARTIALLY BECAUSE I TRY TO DO COMPREHENSIVE RESEARCH BEFOREHAND, AND PARTIALLY BECAUSE I DON'T LIKE LOSING MONEY AND SELLING AT A LOSS. HOWEVER, RECENTLY I EXPERIENCED SOMETHING TRULY EXTRAORDINARY. IT WAS NOT THE EVENT PER SE THAT I'M DESCRIBING THAT'S EXTRAORDINARY, BUT IT IS MORE THE FACT THAT IT HAS NEVER HAPPENED BEFORE IS WHAT STUNNED ME. I WAS A PART OF SOMETHING THAT HAS NEVER HAPPENED BEFORE. AND NO, I WASN'T JUST OBSERVING IT FROM THE SIDELINES – I WAS IN THE MIDDLE OF THE FIELD GETTING SLIDE-TACKLED FROM BEHIND.

Long story short, Oil (WTI Crude, to be precise) went negative for the first time in history. Coincidentally, this was one of the biggest trades I have made – on the other Crude of oil, Brent. A quick summary goes like this:



Trader’s on wall street were due to take in physically delivery of oil, however, there was virtually no space to store it. So they were paying buyers to essentially take this problem off their hands. However I do not want to talk about the schematics of the trade, I want to talk about what I have learned from it. So firstly,

DO NOT SELL OUT OF PAIN, SELL BECAUSE YOU’RE WRONG

"RISK COMES FROM NOT KNOWING WHAT YOU'RE DOING." - WARREN BUFFET

Although I invested in a different crude of oil, WTI and Brent are still quite correlated. So even though Brent did not tank below $0 as WTI did, Brent still dipped like a rock. My position was down around 60% at this point, and I spent an afternoon reassessing my position. I came to two conclusions. Either I buy more at this price, or I sell and cut my losses. However, there was no evidence prompting me to sell nor was there much evidence changing my original thesis, therefore prompting me to logically add to my position. In the end, I did neither – I waited. Whether that was the best decision to make at the time is a discussion for another day, but with Brent and WTI back at stable levels, I can say that my thought on selling was because of me not wanting to lose more money, not because I was wrong. I have learnt that for you to sell at a loss, your original thesis must have changed. If it hasn’t, either you were wrong in the first place, or you're selling out of pain.

Inversely, the price you sell a loss at should not be the price where your pain threshold ends – it should be the price where your trade/investment is wrong. I feel as though many traders/investors have the mindset “I will sell at x price because I’m only willing to take this much of a loss” – this should not be the case. I believe the mindset should be “I will sell at x price that’s when I know my original thesis was incorrect.” With that said, the next thing I learned may be classified as a disclaimer for the first thing I learned.

"MARKETS CAN REMAIN IRRATIONAL LONGER THAN YOU CAN REMAIN SOLVENT" - JOHN KEYNES

I think a lot of traders and investors know this one but have not experienced the situation fully. On the face of it, the thesis for the oil trade was quite simple and fundamental – eventually, we will get back to normal and the demand for oil will rise again. The price of oil was down 80%, therefore we should see an 80% increase to the upside once demand picks up again. No matter how fundamentally correct my thesis maybe, if I had invested in WTI when it went into negatives I would have fully wiped out my account.

If anything, this also shows the benefits of having a long term time horizon and investing into good assets instead of short term plays – that way you can ride out the volatility that comes with short term trades.

IT IS DIFFICULT TO SIEVE THROUGH HEADLINES

The media's goal is to attract as many eyeballs as possible, so they can get money from ad revenue. Therefore, their headlines are so that you click into the article. My friend was asking me whether they should sell their Index fund because they read an article on NZ herald that was titled "Expert predicts 'massive bankruptcies in two-year meltdown." I also read a title that stated "Oil has a very high likelihood of going negative again next month" (surprise surprise, It didn't). I've learned that when researching your idea, it is good to try and stray away from analysts and make your conclusions from statements that came from the source. If you're looking into an interest rate sensitive sector, read the Feds statements. For me, it was looking at the EIA and IEA stockpiles data that was released every week. It is important that you try and use news sites as a guideline to what you want to dig into, and do not always take what they say at face value – even with reputable news outlets such as Bloomberg, Wall Street Journal, Financial times etc.

KNOW WHAT YOU'RE INVESTING IN

"AN INVESTMENT IN KNOWLEDGE PAYS THE BEST INTEREST." - BENJAMIN FRANKLIN

I guess this is more tailored to the instrument itself rather than the asset you're investing in. For example, there are a couple of ways you can bet on oil prices – Oil ETF's and Futures. Futures are the more direct way in investing, while Oil ETF's provides retail investors exposure to oil prices without actually having to deal with margin accounts with brokers. Why not go with the ETFs right? Seems easy enough? Well, this is where I was wrong.

In short, my trade was affected by something called contango which I did not know about. This meant I took a loss every month the oil markets were in contango. Had I done more research into this before I entered my trade, I would have been able to adjust my trade accordingly.

In short, my trade was affected by something called contango which I did not know about. This meant I took a loss every month the oil markets were in contango. Had I done more research into this before I entered my trade, I would have been able to adjust my trade accordingly. It is important to know the instrument you're investing in – even if it is just stock. Take a look at their history – what is their dividend history? Have they done any rights issues? Are they doing good on their share buybacks program? Things that we never assume to be a problem, but may cause headache in the future.

SIMPLE IS PERFECTLY FINE

"BUT IF YOU CAN BUY A FEW GREAT COMPANIES THEN YOU CAN SIT ON YOUR ASS ... THAT'S A GOOD THING." - CHARLIE MUNGER

At the end of the day, fundamentals triumph. No matter how complicated your trade/investment strategy is, a simple and airtight idea will not only cause you less stress but will most likely be better in the long run. This oil trade was an eye-opener because yes, I may end up being correct however they may have been a simpler way to achieve the same results ie. generate an outsized return. People are stuck in their homes so they'll try a dropshipping business, therefore I should invest in Shopify? Perfectly fine. Does JP Morgan trade at a Price to book value of less than one? Great for a long term investment. SP500 Will rebound eventually? No harm with that mindset.

Just to be clear, I am not saying that complicated trades are bad. I am saying that if you don't find that latency cross-currency arbitrage and can only think of investing in Amazon because you believe in their cloud businesses – that's not bad at all. I think all these things I have slowly learned over time, however, was magnified in my recent oil trade. I can't say either that I have been practising all the points I've made in my statements above. After all, I'm not Taylor Mason, I am human. But I can say that I have accepted that I have made mistakes and that I am trying to learn from them. And I hope you do too.

MYOB's column

WELLBEING BUDGET 2020: REBUILDING TOGETHER

This must have been one of the most momentous Budgets in New Zealand’s history, delivered in the most unusual circumstances.

But what does it mean for small and medium enterprises?

We've captured the key outtakes in our report of the Wellbeing Budget 2020 here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