



Monthly Newsletter - August

Hello there,

Welcome to our newsletter for August. In this edition you'll find:

- Current market downturn
- Underlying fundamentals of our businesses
- Outlook
- Latest articles.

Current market downturn

In the outlook given in my previous letter in July, I noted that our biggest struggle was valuations that were becoming stretched. In August those valuations have stretched even further, particularly in US stocks.

The beginning of September has seen the market do something very unusual - act rationally. From the 2nd to the 8th of September (US time of writing) the Nasdaq has dropped 10%. Tesla, probably the biggest single contributor to the markets recent over exuberance, has dropped 31% over the same few days, 21% just last night.

Companies in our portfolio, some of which were overvalued, have come down with the market in recent days and I view this as a good thing. A great deal of risk is moved off the table when valuations revert to fair or discounted prices. Our focus is always on business fundamentals and we stay invested through these short-term overvaluations and subsequent reversions, something akin to the pendulum swing in a grandfather clock. With that in mind, let's take an updated look at the fundamentals of a sample of companies we hold during this volatility.

Paycom

Paycom's digital human resource management solution has responded strongly to the Covid crisis by onboarding over 3x more clients than before the pandemic. Paycom generates revenue when wages are paid on its platform and with the high number of layoffs across the US, its current revenue is quite low. However, when conditions normalise Paycom will be generating much more revenue than it was before the crisis due to the large number of clients recently onboarded. The pandemic is exposing and exacerbating issues with disconnected and outdated human resource systems, accelerating the underlying trends supporting Paycom's business model. Paycom's all in one digital platform has never been more necessary than it is in the current environment. Trends in mobile management, remote workers, self-service employee management and self-service digital training have accelerated rapidly in the current environment and this will likely continue post Covid.

The Trade Desk

In programmatic advertising The Trade Desk (TTD) has been impacted by lower ad spend during Covid, however, the need for data driven advertising has only become greater as advertisers return on investment becomes paramount.

Advertisers have recently begun to return to the market with new creatives tailored for the current environment and they're turning to programmatic. Nearly all of the largest brands have now increased their spend on TTD's platform. This includes industries covering consumer packaged goods, food and beverage, technology, health care and automotive.

One of the most important issues advertisers are grappling with right now is user generated content (UGC) .The issue is the nature of the content that's at the core of the problem. Much more needs to be done in areas of divisiveness and hate speech, especially during this election year. Almost every major brand is facing inappropriate brand placement in forums where these issues are occurring. Think [#StopHateForProfit](#) with the recent [boycott of Facebook](#). Increasingly it's a risk advertisers don't want to take. Brand safety is of critical importance. TTD provides advertisers the tools they need to only be exposed to premium inventory with targeted placements to those audiences they value and offers a real alternative to UGC platforms such as Facebook.

Adyen

Adyen, a global digital payments facilitator, has seen mega trends supporting its growth, accelerate during Covid. The move to cashless societies has become a necessity for health reasons in the current environment. Online and offline sales channels have had to be integrated and the digitisation of commerce has increased.

Adyen continues to grow its business amongst its current clients with 80% of volume growth coming from existing merchants. Processed volume now stands at €129 billion, up 23% year on year. Post Covid, a rebound in travel and in-store retail will see further acceleration in Adyen's revenues. Not only have the underlying mega trends supporting its business model strengthened in the face of Covid, but it continues to move down from larger merchants into the mid-market segment as well as moving globally with expansion into Malaysia.

Appen

Appen is in the business of data annotation. People manually review pictures and videos, labelling images with code for artificial intelligence (AI) data sets. The pandemic has seen an acceleration in the adoption of AI in almost any category requiring a contactless environment. The need for AI and AI training data underpins the advantages these companies have through search and recommendation engines for e-commerce, speech recognition and natural language processing for contactless communication and computer vision in retail, manufacturing and logistics.

As mentioned above, the market is taking sensible action in bringing the prices of many overvalued stocks back down closer to fair value now. There is a chance that the market may continue to drop, and those prices may move through fair and into discounted. These kinds of market adjustments are of no concern to the investor and may offer buying opportunities in selected stocks. We take a long-term view in holding our positions and ride through the highs and lows of market influences. We stay focussed on company

fundamentals. All stocks in our portfolio have sound business models backed by strong macro trends, robust financials and, in many cases, are benefiting from changes in behaviours that Covid is bringing about.

Outlook

If we consider market seasonality, the months of August through to October, typically, are relatively flat with a period of volatility around late October/November before a Christmas rally beginning mid-December. The market has taken sensible steps to revalue and perhaps more is required but we may not see it. The pendulum swings and it can swing too far or not enough. Looking ahead, the US election is likely to bring volatility due to uncertainty about its result. However, regardless of the outcome, markets typically rally as a candidate is chosen and that uncertainty is removed.

Latest articles



What is an ESG investment?

ESG stands for Environment, Social, and Governance – three factors that are considered in making sustainable

[Read more](#)



Buy the right company at the right price and leave it be

When it comes to investing, it's better to be more sloth than leopard. If you do your own analysis it needs to be accurate and if you have made reasonable assumptions of where you think this company will be in the future, you must then wait for the future to come.

[Read more](#)



Black swans, white swans and very boring swans

Just about every day, someone, somewhere, makes a prediction of economic disaster with perfectly logical arguments for its imminence. It's a fact that economic disasters do happen, so it is also a fact that as they do, someone will have been correct in predicting them.

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All the best

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