

Capital



## 2023 Annual Letter

CapitalAlphabet, LLC

[CapitalAlphabet.com](http://CapitalAlphabet.com)

Alphabet

*All I want to know is where I'm going to die. so I'll never go there.  
- Charlie Munger*

None of the recession forecasts materialized, and now everyone believes we've achieved a Goldilocks economic environment. During the past year, every reason has been seized upon to justify investing in the market. The Nasdaq Composite Index, which was up 43% in 2023, was dominated by the 'Magnificent Seven' – Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla. These stocks accounted for 68% of the index's gains, with Nvidia alone contributing 11%. I make no attempt to forecast the general market; my primary attention is always focused on detecting substantially undervalued securities.

My primary goal as portfolio manager is to achieve a long-term performance record that consistently exceeds comparable indexes. Without superior performance, there's no reason for these funds(SMA's) to exist. However, this outperformance shouldn't be expected to be constant. If we achieve an excellent track record, it likely means we significantly outperform during stable or declining markets and perform at or slightly below average when markets surge.

I would consider a year in which we decline by 15%, while the average declines by 30%, a far superior result compared to a year when both the average and our portfolio rise by 20%. Over a period of time there are going to be good and bad years; there is nothing to be gained by getting enthused or depressed about the sequence in which they occur.

The above dose of philosophy is being dispensed and will be repeated every year as I want to make sure our new partners understand my objectives, my measure of attainment of these objectives, and some of my known limitations.

### **2023 Performance**

2023 was our first full year of operation. It's important to understand that outperforming the market or even generating positive returns cannot be expected every year or reporting period. We have holdings in some Chinese companies, and the energy companies that performed poorly last year. Despite these challenges, we achieved a 28.88% gain for the 2023 calendar year as we added significant funds in the last quarter pivoting our portfolio towards US with significant exposure to BAC, our time-weighted results are calculated after expenses but before management fees.

We take concentrated positions, typically holding only 5 to 10 stocks within our portfolio. Partners should understand that even with our highest-conviction investments, this concentrated approach means there will be periods of volatility. Additionally, many of our investments are unconventional, and we cannot predict when market sentiment will align with our valuations.

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## CapitalAlphabet Performance vs. the S&P 500

Year	Portfolio Gain	S&P 500 Gain
2022*	29.91%	-6.69%
2023	28.88%	26.19%
<b>Cumulative Return</b>	67.43%	17.75%
<b>100k invested at start will be</b>	\$167,428	\$117,748

\*CapitalAlphabet started in June 2022

**Note:** These represent CapitalAlphabet's time-weighted net results (after expenses, but before management fees). Client net results depend on their specific fee agreements.

## Invested Companies

In looking at individual stock contribution to performance, I will always start with the bad news as good news can wait. Here are our bottom performers

Company Name	Attribution
Gear Energy	-2.20%
Baytex Energy	-1.59%
Peyto	-0.63%

I get very excited when I find companies trading at 3-4 times current free cash flow per share and keep forgetting that these commodity companies fate relies on external factors like commodity prices and global trends. I always treat them as work-outs but if they are not working out as expected then I need to abandon the strategy of 20% work-outs and just invest in good businesses. While it would be very nice to be 100% in generals in advancing markets and 100% in work-outs in declining markets, I make no attempt to guess the course of the stock market in such a manner. We consider both these categories to be good businesses on a long-term basis, although their short-term price behavior characteristics differ substantially in various markets.

On the topic of bottom performers, here is what I wrote in the last year letter..

*I feel our analysis is correct just too early with our purchases which will always be the case as I get excited once it hits our range with a sufficient margin of safety, we will start taking meaning full position but they usually end up much cheaper if we have little more patience, I was never able to bottom tick a purchase, though we added to ours at those prices. Luckily this time our excitement didn't cost us much as impact on portfolio is around 1% or its my premature talk and we will see how these businesses progress.*

Company Name	Attribution
Wells Fargo(WFC)	-0.90%
META	-0.83%

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Anyone who preaches about efficient markets in the US needs to take a good, hard look at META's stock roller coaster last year. I was kicking myself for not selling everything and going all-in during the sell-off. But hey, we're not playing Nostradamus here with market timing. Still, betting around \$100 per share (a \$250 billion market cap) on a fantastic business used by 3 billion people daily seemed like the easiest decision ever. And wouldn't you know it – within a year, it's our star performer!

Company Name	Attribution
META	16.66%
Bank of America	13.64%
Naspers	2.98%

## It's all about the Long-Term

In November, We added non-taxable accounts. It will follow the same investment strategy as our taxable portfolio, but the tax-advantaged structure allows for quicker trades without tax concerns. This flexibility is crucial.

To focus on managing our funds, I recently left my position at BAC to work at a non-financial company. I also rolled over my 401(k) into an IRA and invested it in this fund. While 401(k)s limit investment options, I was fortunate to find two strong performers over the past decade BAC stock and an S&P 500 index fund. With gumption and some luck, I quadrupled my contributions. Between the IRA and taxable account, I hold over a million dollars in our Fund, and I intend to maintain these positions for the next 25 years, until IRA distributions begin. This directly aligns my incentives with those of our investors – we're truly 'eating our own cooking'.

We'll track our annual performance against the S&P 500 as a benchmark, but our true focus is maximizing long-term portfolio value. This approach encourages prudence – avoiding market fads or simply indexing to collect fees like many funds do. My commitment to long-term thinking will be our north star.

I am extremely optimistic and believe that our singular focus on long-term thinking will be our guiding principle in achieving strong results. A recent transaction I completed solidified this belief. After my first consulting trip to the US, I saved close to \$5,000 USD. My experiences in New York and Delhi had shown me the potential of urban growth, and I recognized a similar pattern emerging in Hyderabad with the nascent rise of IT companies in 2003. I invested my savings in land near the IT hub, purchasing as much as I could afford. At the time, buying land felt like an obvious choice with minimal downside risk. I held the investment for 20 years, simply ensuring it remained unoccupied and monitoring the development of the surrounding area. This resulted in my first 50-bagger, teaching me the power of compounding and the importance of remaining invested despite booms, busts and various political events which all considered to be once in a life events. i.e. State bifurcation, Real estate meltdown

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I want to clarify that the investments described above were my own personal investments. While past performance is interesting, it's important to remember it doesn't guarantee future results. As the saying goes in finance, 'Yesterday's returns are like last week's weather report – interesting to look at, but not a great predictor of what's coming next

I believe transparency is key in money management. Investors and managers should have a shared understanding of goals, performance metrics, timelines, and the processes involved. My goal is to ensure my clients feel confident in my decision-making and understand our mutual objectives. We only invite investors aligned with our goals, strategy, risk tolerance and who feel we are making rational decisions. This ensures mutual understanding and a strong foundation for a successful partnership.

Cordially,

Venu G. Vallabhaneni