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FRAZIS

• CAPITAL PARTNERS •



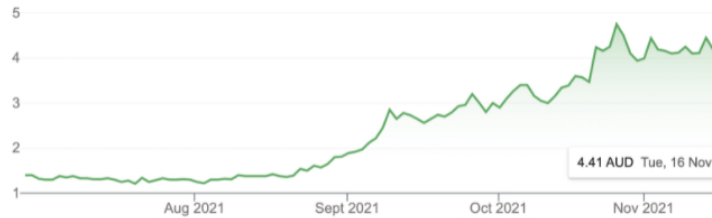
November Investment Update

If you were forwarded this you can subscribe to our updates [here](#), and past letters [here](#).

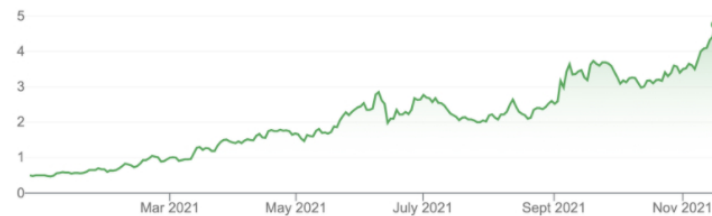
Dear investors and well-wishers

The fund advanced 1.3% net in October leaving the fund +47% net over the last 12 months.

There has been continued performance from our top Australian picks Camplify and Cettire.



Camplify has increased 3x from our purchase at IPO

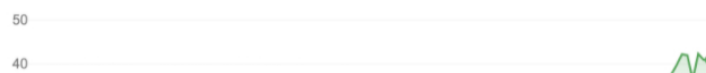


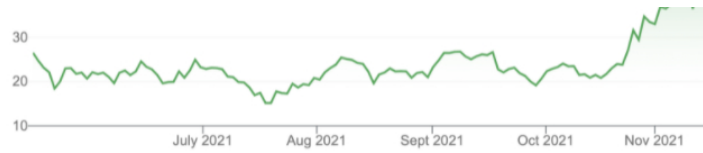
Cettire has now increased 7x from our purchase at IPO

Galaxy Digital

I wrote a series of articles on crypto [revolutions in art](#), [music and gaming](#).

We made a recent investment in Galaxy Digital, the full-service crypto investment bank set up by Mike Novogratz. Galaxy offers a full-suite of financial services to the crypto community: prime broking, custody, asset management, and principal investments.





Galaxy Digital stock price

We purchased in the low \$20s at a market cap of ~\$7 billion.

This week Galaxy reported an astonishing \$1.6 billion of net **income** for the calendar year so far.

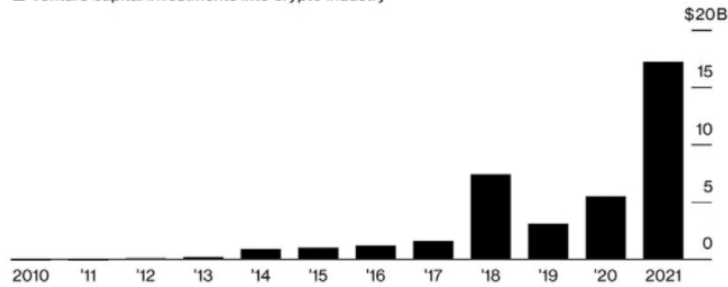
The top tier listed crypto companies remind me of software six years ago before becoming one of the best performing asset classes. Many trade at single digit EV/Sales with exceptional growth and profitability.

And valuations in private markets are far higher than those in the listed space, so there is a clear listed company discount, though this has certainly narrowed in recent weeks.

Gold Rush

Venture capital has piled into crypto companies in 2021

■ Venture capital investments into crypto industry



Source: PitchBook

Galaxy is like an investment bank 100 years ago, before the recent decades of fierce competition and margin compression made the industry less fun for everyone.

Trading spreads are wide, custody fees are high, and the value of high quality advice is unarguable.

There is now more than \$400 billion of daily trading volumes in crypto, an exceptional revenue opportunity, and on the asset management side, crypto is far too specialised to handle in-house. Galaxy's assets under management have swollen from \$800m on 1 January this year to \$3.2 billion today.

And even custody, a commodity product elsewhere in finance, involves serious risks and is worth paying up for. Galaxy's custody platform grew from \$35.5 billion at quarter end to over \$64 billion in mid-November.

Explosive growth!

My next articles in the crypto series will explore the revolution in community and an overview of the highest quality listed opportunities in the space.

Opendoor

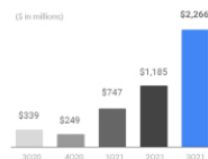
Opendoor reported, posting both 91% quarterly growth and above target contribution margins, in a period where their main competitor left the market.

There is no capital-lite lifeboat for Opendoor: they live and die by their pricing and risk management and it shows. This was their 20th consecutive quarter of positive margin contribution including periods of intense volatility (most notably last year).

3Q21 Revenue

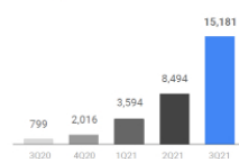
\$2.3 billion

(\$ in millions)



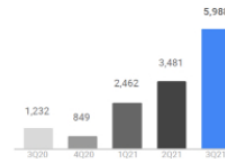
3Q21 Homes Acquired

15,181



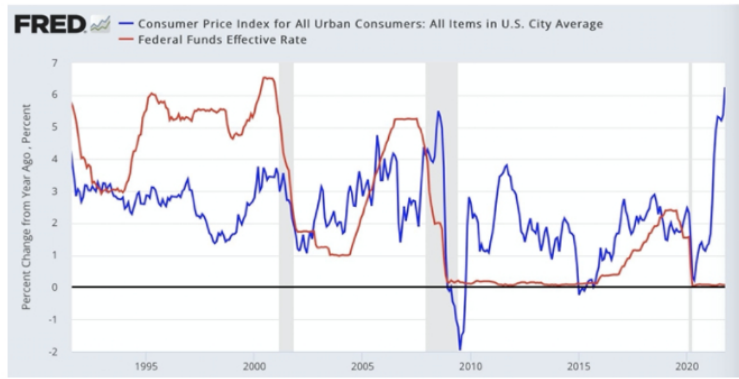
3Q21 Homes Sold

5,988

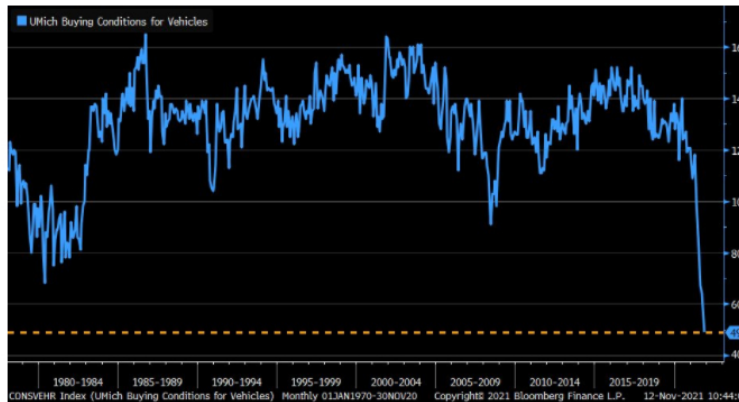


Inflation

US inflation printed the highest number in thirty years at 6.3%. The data is finally catching up to what so many of us have experienced - a dollar today just doesn't buy as much as it used to.

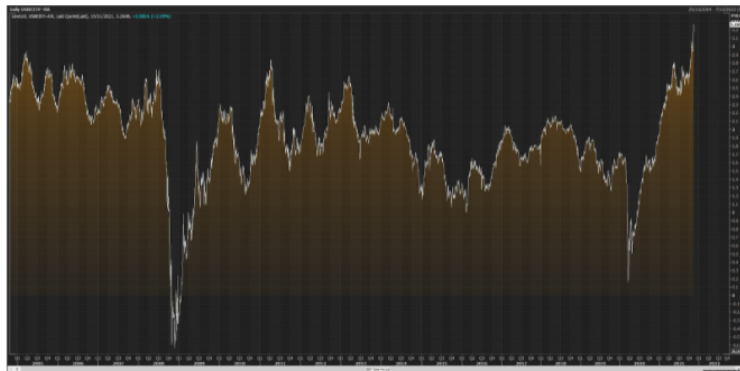


About a quarter of that increase is due to the astounding rally in second hand cars, which will almost certainly reverse in coming quarters ('transitory'). This is now the worst time to buy a car on record.



But no matter how you cut the data, prices are rising fast and this is translating into wage growth too.

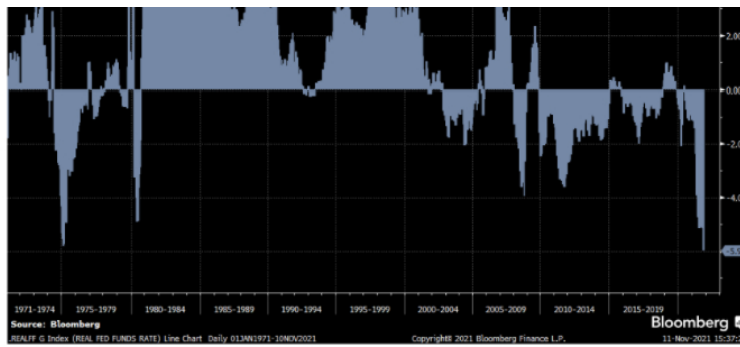
Markets are pricing this in, with inflation breakevens higher than they have ever been:



On the positive side, the benchmark Fed interest rate minus inflation is as negative as it has been on record, so we are still in an expansionary monetary phase. And a trillion dollar stimulus bill was signed into law by President Biden only yesterday. That's unlikely to ease pressures on supply!

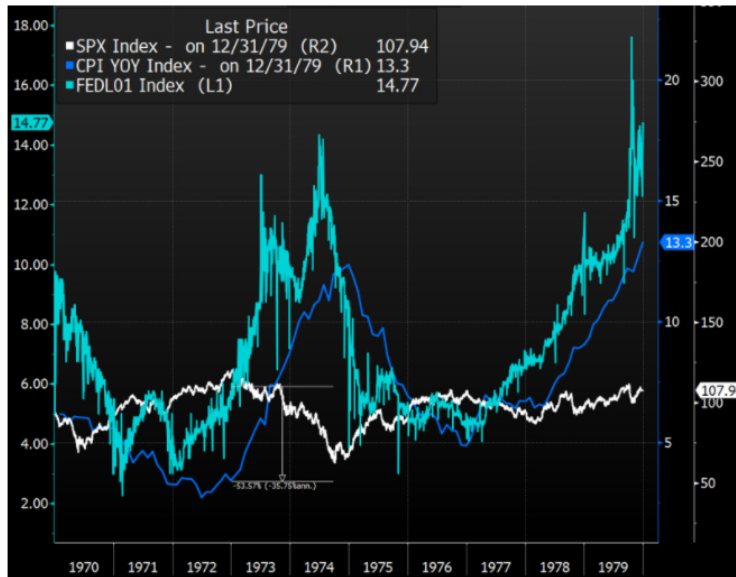
So we have the highest inflation in decades, but the most negative real rates, and an extraordinary stimulus still to come.





The 1970s is an interesting case study. Early in the decade an energy shock pushed inflation to above 10% (blue line below) with a corresponding increase in rates, though back then the Fed raised rates *before* the rise in inflation (green line below).

This triggered a brutal 2 year circa -50% equity bear market, followed by a rally throughout the rest of the decade.



There's an interesting parallel today.

Back then the energy crisis first ate into corporate profits and personal budgets, and then higher rates from the Fed landed a second sucker punch, sucking up financial capacity.

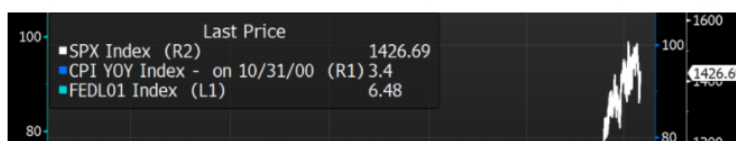
Today there is another energy crisis, only this time it is caused by purposeful underinvestment in supply, which has pushed energy prices to decade highs, particularly in commodities like coal which were marked for corporate death. With every new crisis the Ancient wisdom of 'First, Do No Harm' rings truer than ever.

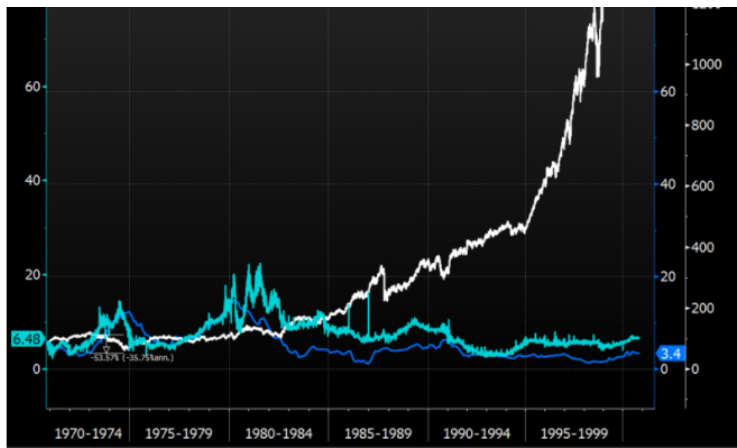
Fortunately, consumer preferences and advances in technology offer natural (and apolitical) solutions. Over 2.5 million Australian households have paid to install solar on their homes, and renewable energy has dropped in price every year I can remember. (Before you ask I cruise around in an electric Fonzarelli and have locked up tonnes of CO2 in [Klima.](#))

Our own preference for doing good, namely early stage investments in the life sciences, has actually lost us mandates rather than won them, but maybe one day that will change!

Irrespective, the wide-spread aversion to investing in fossil fuels is here to stay, so this part of inflation may not prove 'transitory'. Does anyone else remember the panic around 'peak oil', namely the serious fear that we would run out of fossil fuels?

Zooming out on the chart above, it's worth remembering what happened to the S&P (white line below) after the energy induced crisis of the 1970s:





Also, fascinatingly, over that entire multi decade period the fed funds rate (green) was above inflation (blue). Now rates are 6% below, in the opposite direction.

Navigating all this

The question of where to invest at a time like this is on everyone's mind. The cost to cash is higher than ever, running at -6% in the US. But at the same time, rising rates seem inevitable and that can cause problems for riskier assets.

For the capital that is to be put to work, and capital should be, we think there are two clear paths.

Firstly, investing close to the point of company formation will always be a great place to be. There is so much value creation at those early stages that it's entirely irrelevant whether GDP is up down or sideways (this idea was explored well in a [recent podcast](#)).

Similarly, if we go through a challenging two year period, companies that are 3x or 4x larger in size, as measured by users, revenues, and core profits, will almost certainly be worth more than they are today, particularly as the most loved companies will be able to increase prices faster than the rest of the market.

It's more important than ever to have a steady and logically consistent investment philosophy and process.

Best wishes

Michael

ps I found [this computer generated art](#) particularly impressive.

pps our venture fund will remain open until the end of the year to existing investors, you can [apply here](#).

If you'd like to invest with us, you can access our investment portal and fund documentation through the button below, or simply reply to this email and we'll be in touch.

Invest

Please note: We are now taking applications weekly, so if applications, funds and supporting documents are received by 2pm on a Friday, the investment will be priced for Friday COB / Monday morning start. We are also available on Netwealth, Hub24, and other select platforms.

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