The Coppo Report

BELL POTTER

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Tech and Growth Stocks need to ‘tread water” for a bit longer

Retail thought it was a one way ticket to the moon – but then reality hit - which was like a glass of red wine thrown straight into your face

- **Retail investors who only thought the market could go up** (because since they entered market in **April 2020** or **May 2020 and it did for a long time) -** have **finally suffered their first setback**.
- A **few months ago retail were on the hunt** as they were **getting into so many stocks that had "upside momentum"** – thinking that **everything they bought would only go one way…up**
- That may work for a while but eventually the market wants its "pound of flesh". Always has, always will – just a matter of when that's all…
- The **tech / growth names** have had their **much need "wash out"** and you can sense now, that a **lot of the retail punters** are **now feeling stock market pain** (which most of us have experienced many times over the years) for the **first time.**
- **For many this experience** will be **completely bewildering** – as they were **convinced that stocks could only go up** …
- The problem for many, was that they were **not investing in well-known stable (or some you could even call "boring") companies** that have **revenue, profit and dividends** – **but** they were in the more **high octane part of the market** – the **growth / tech sectors**.

If you can't handle 30% to 40% volatility - then these stocks are not for you

- As I have mentioned many times **these sectors are highly rewarding if you pick the right stocks** – **but** even **if you do**- you have to be **able to sustain incredible volatility** and **many -30% to even -50% falls along** the way.
- That for **many is easy when it's going up** – but **horrifying when** as we have **seen in the last 6 weeks** – it goes **straight down like an elevator dropping 25 floors very quickly**.

Investing takes "patience"

- In **my 35 years in the markets** and **investing** over that time, one thing I have **learned is that investing is "not easy"** – it's **hard**, takes **patience** and the **market always has a way of humbling you**.
- As soon as **someone tells you that they can say** "**time the market**" by **buying at the bottom** or **selling at the** top (and that **buy and hold is for losers**) – the market then has an **amazing** ability to **crush their "humility"** and **frequently** you **see,** that they **then get it unbearably wrong after that**.
- **A hero one day, can be a zero not to long after** – so you always have to "**respect the market**" and more importantly "**listen to what the market is telling you**"

Listen to what "the market is telling you"

- Too many **professional** investors said over the **last 12 months – as the market rallied** –that "**the market is wrong**" and instead **thought** that they with their much more "**clever" bearish scenario** – "**were right" –** which we now know they **were not** and **got 95% of their crash calls horribly wrong**.
- But the **retail investors** – this **new army** – **bought** and did not **listen to the experts who were getting it wrong**.
- So in a way **they believed they were now better than the professionals** and they were – for a **while** – they were "**kings for a day**" (or many about 11 months) – but with all **investing** – if you **think it can only go one way** and then it suddenly **turns and you "think" you** will be able to get out before it goes south – **you are in a delusional fantasy land**.

You only learn the hard way

- **Stocks & markets go up** and **down** – they **continuously test us** & only those with **nerves of steel** (which takes **years** – with many **good** and **cruel experiences**) - do we **learn to ride out the volatility**.
- In **2007** the **retail army were in full throttle back then** – making money was "**easy**". But after the **devastation of the GFC** in **late 2008** and again in **early 2009** – many **publicly declared** – **we will NEVER EVER invest in the stock market again** – such was the **pain they suffered**.
- So right now all that has been **forgotten** and this new "**retail army**" is like a group of **cadets not long out of "basic training"** – who have had a **remarkable blitzkrieg over the last 11 months** – with major victories in every battle they fought – but in the **last month have faced their most bloody battle** – from which many are **battered, bruised and a little unsure**..
- **All the easy money they made** – for **some** has been **wiped out is just a short time** –some will **retreat** and lick their wounds, while others will **ride out the storm and come back stronger**.

This tech / growth correction reminds us – it's not easy.

- As far as the market goes, this **tech / growth stock market rout** is very important **as it takes out much of the "frothiness"** that was **prevalent** and **tames the euphoria** that was **pushing many stocks up too quickly**.
- So, these **retail investors have finally been taught their first real lesson** in investing - that **it "not easy"** and when it **gets too easy** (and everyone is making money – especially those **"new"** to the stock market) then it's **getting close to a much needed "shake-up"**

We never know when a 'correction' comes but they do & frequently.

- One **hint** (sometimes) **that** it's coming, can be when **stocks double very quickly** (like ZIP that went from **$5.00** to $**14.70** in just a **few months** – that was **just too fast** and as **I said when they hit $14** that they were **close to a big pullback**).
- So, from here we will see **many who have had their confidence rocked** – and will be looking to now **sell on any bounce their tech** / **growth stocks**.
- Some who **bought higher,** will wait until they get back to their **"entry level"** and then **sell** – and be **happy** to get their **money back and then move on**..
- So its means that with every rally from now on – there will be walls of selling that till slow the rebounds.

The next rally will be more structured

- After this rout – most stocks will **not bounce back in a V** – **but will hopefully** instead, go up very **slowly** – in fact so **slowly that they look "boring"** as you are **not making quick +20% to +30% returns** – as you were last year.
- I have owned **Afterpay** for many years and have seen **many selloffs** – **but as I have a long term vision for them** – I have been able to **absorb the "body blows"** that come with these stocks and **withstand many -30% selloffs along the way** (or **bloodbaths** as they get called every time they hit)

If you hold long term then you lean to 'ride out' short term movements

It's like **owning your own home** and you see **all these ridiculous prices being paid around** you – depending on your "**time fame**" – allows you to **view it 2 different ways**.

- You see the **profit** and **have to sell** as the **prices are crazy** – so you thus are **watching every sale** and are worried it **could turn down before you sell**. So you are very focused and just want out – before it all "crashes" (as experts have been telling us for the last 20 years)
- You have **no intention of selling for many years** – so these prices are "**interesting**" but in reality **mean nothing** as **you are NOT a seller**.. Which means that when they come off you are not distressed either.
- It's the **same with many of these long duration growth stocks** – they **go up** and then **inevitably suffer nasty corrections** on the way.
- So, if you are intending to hold them for a while then the **rallies are satisfying** to **see** but at the same **time the selloffs are tolerated** as just being part of the **voyage that you are on**.
- N**othing** goes **up in** a straight line.
- As many **first-time retail investors a**cross the globe, are now **learning** this for the first time.

A2 Milk - long term OK but still short term pressures remain

- I hold other **growth stocks like A2 Milk** - that I have held for many years and I'm relaxed (**bullish**) about them on **a 2 year view** = but right now this is **not a good time for them with international travel still halted**.
- However if you think it **will resume** – then the stock is a **buy here** – but you have to be **prepared to wait a while, but when** it (finally) turns – and yes that could take time no question about that – but at the same time – when it does **happen - it will do so very very quickly**..
- **Stock has been hammered and fallen 15 out of the last 16 days**, from $9.54 to today's, **3 year low of $8.**24 so **down -$1.30 or -13%.** There were some "**traders**" who bought this as a trade when stock was **smoked** in **late Feb on another profit warning** – who would have been **exiting** over the last few weeks.

  CBA yesterday said they had sold down -1%. It looks **like instos are just not interested in this**.

  Some think the **shorts** have been **shorting**, but instead they have **been badly burnt** on this before and some have **covered at these lows**. Shorts have **dropped from 8% a few months ago to 6.2%.**

  I've been in **A2M** for the last 4.5 years and my **greatest fear is that someone comes** in and makes a **takeover** at them at these **depressed prices**, it's still a $15 stock – only question is when? But given how important this company is to the New Zealanders – they may make it hard for any foreign (Chinese) takeover.. **Still it's cheap – but is cheap for a reason..**

Shorts in A2Milk have been going down - at 3 year low some (smart investors) are locking in their profits.

THE A2 MILK COMPANY ORDINARY (A2M)

Current position	
18th March, 2021*	6.18%
Change	
1 day	-0.04
1 week	-0.35
1 month	-0.44
Stock information	
ASX	A2M
Yahoo	A2M

*ASIC data delayed by 4 trading days (T+4)

Stock stats new
ShortMan's seasonality graphs

Looking at this tech selloff (or "bloodbath" as many will call it) - with stocks like Afterpay, it's just part of the journey

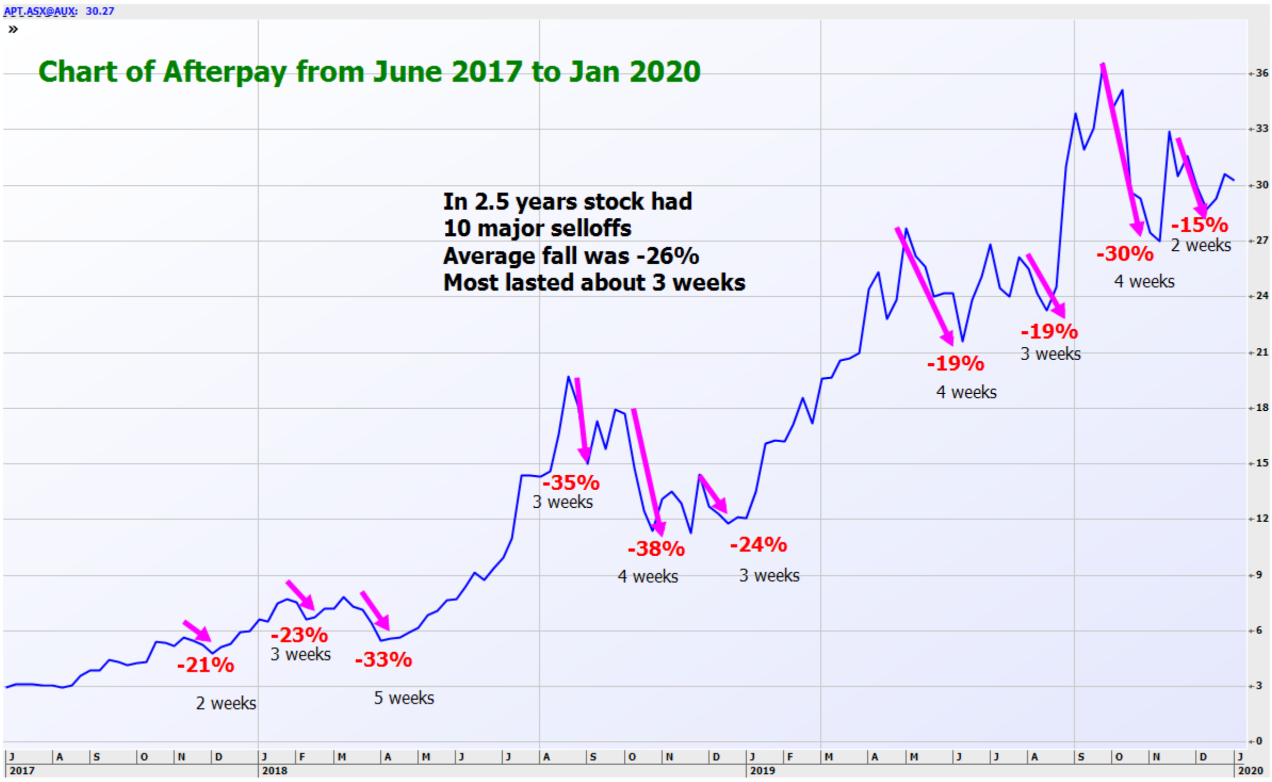
- So the **recovery in the Techs - will not be the V straight back up.**
- It will be ***more gradual as the market continues to "flush out" weak holders or "short term momentum" traders.***
- So for **Afterpay once it bottoms - it will recover strongly - as it reported what was a great result that is aimed at long term growth** – with new markets in Europe (**European launch is "imminent", with over $1b of global merchants in the process of contracting**) and Asia to open up in 2021, plus new products coming including **Cross border FX and Afterpay Money launching in September quarter** which will be like a **transactions savings account.**
- **Gross losses as % of GMV declined** to **0.7%.**
- **UK for the first time, generated a EBITDA profit of $6.5m**
- **ANZ EBITDA margins rose to 54%.**
- ***Late fees that caused so much angst*** – where many (who did not like the stock) highlighted (as did ASIC) that it was **24%of income in 2018.**
- So this has been something that was a huge worry to many in the market back then and why many refused to go near the stock.
- So it was pleasing to see for the half year, that **late fees are now $35.1m out of total revenue of $417m** (which is versus the "whole of 2020" income of $519m) – **so as a % of income - "late fees" are now down to 8.4% of total income.**
- So all the metrics continue to go in the right direction.
- They now have 13.1m customers (up +80%on pcp) and ask anyone one of them and almost all love the product and that is a big plus as the frequency of use increases the longer you have been using it.

- While they have now 74,800 merchants who use it, up +35% on pcp..
- Buying back US holders - **could be part of a plan for a US listing which would yet again change the dynamics.**
- From a longer term view - ***they are heading on the right track - the only question - as always - is what if the right valuation??***
- **So to answer the question from some who have seen stocks like Afterpay smashed -37% in the last 4 weeks - should they sell?**
- ***If you are in for the long term story - then these aggressive selloffs are just part of the ride.***
- If you cannot handle a ride on the "big dipper" you should not own these stocks.

I have 2 charts below just looking at Afterpay & when I highlighted this to a few people – they were amazed & had not realised..

- So in the first chart I had a look at how Afterpay as traded in a 2.5 year period from mid 2017 to Jan 2020.
- ***Now in that period, over 2.5 years - we saw Afterpay suffer 10 enormous selloffs – or "10 Bloodbaths"..***
- The **average fall was big at -26% and two was a gigantic -38% selloffs** (the one we have just seen recently has also been right at these extremes at -37%)…
- **BUT on average - the selloffs lasted only 3 and a half weeks** - the **longest was 5 weeks** (the current one is at 4 weeks at the low of $100)

The "10 Afterpay Bloodbaths" in the last 2.5 years to Jan 2020



Source Coppo Report / IRESS

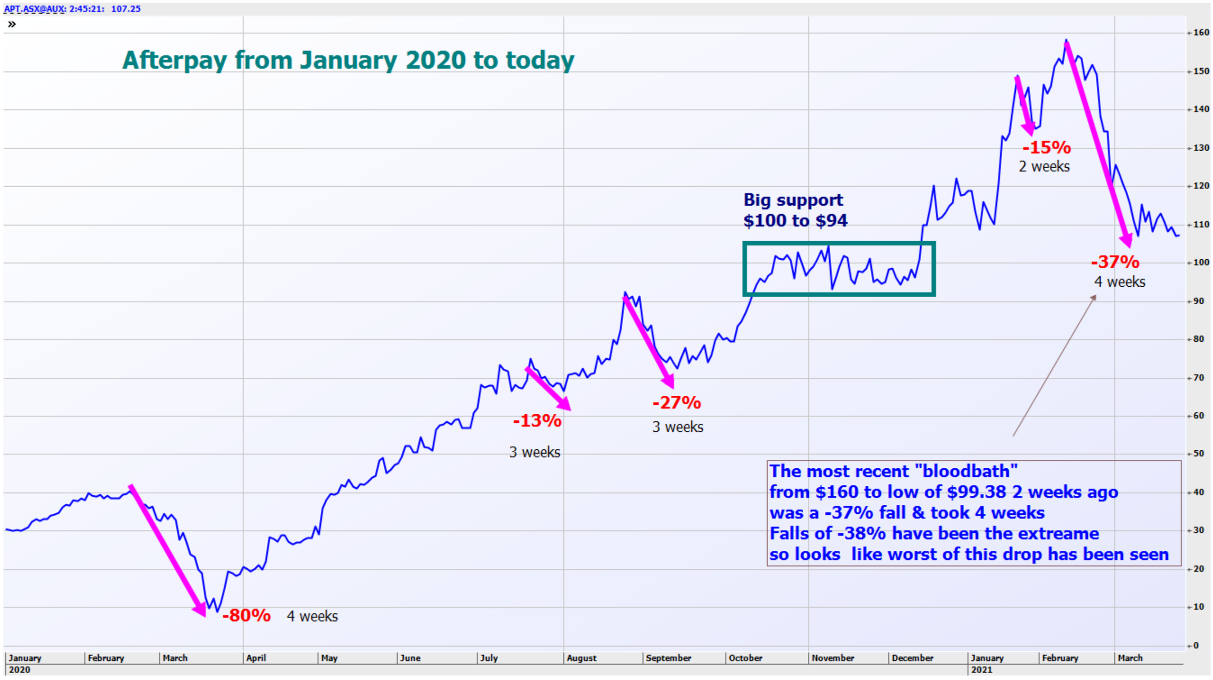
The chart below shows Afterpay from Jan 2021 to today – so the last 2 ½ months.

- Now more **recently we have seen**
- **Excluding the -80% drop** (when market was in freefall), there have been 4 **corrections before this one**.
- **Again most have been about 3 weeks..**

The current sell off ..... OK if it is in any way similar to the previous selloffs - then bottom is ... close.

- **This drop has been -37%**(from $160 to low today of $99.38)
- **It went 4 weeks**..
- **So if follows all previous selloffs - then bottom was recently..**
- The **previous biggest fall before was -38% in Nov 2018**

Afterpay in last 15 months with the recent selloff..



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Disclosure: Author of this note Richard Coppleson owns APT shares.

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