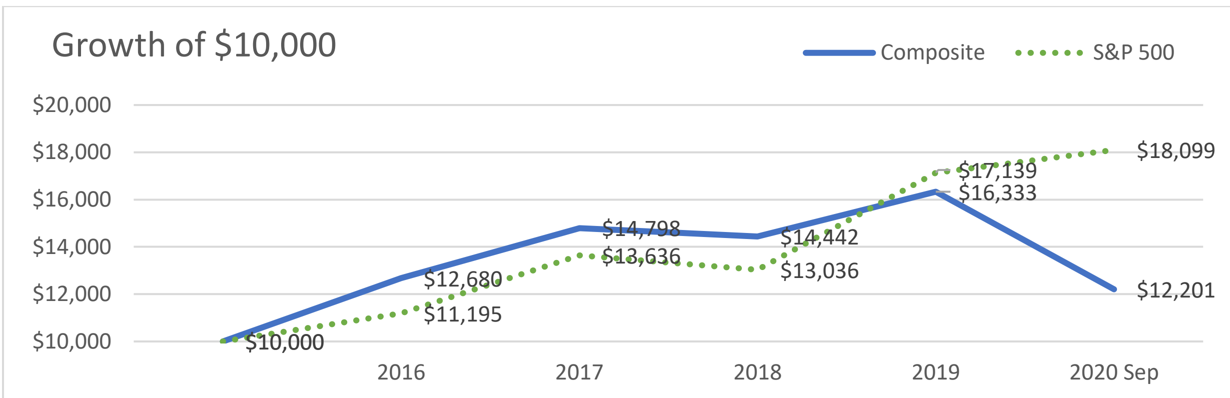
Spring Ocean Capital Newsletter 2020 Q3

Portfolio Performance

Our portfolio performance was:

	S&P 500	Spring Ocean Composite[1]
2016	11.95%	26.8%
2017	21.8%	16.7%
2018	-4.4%	-2.4%
2019	31.49%	13.09%
2020 Q1	-19.6%	-25.41%
2020 Q2	20.5%	3.23%
2020 Q3	8.9%	-3.01%
2020 Q1-3	5.6%	-25.3%

Assuming $10,000 was invested at the beginning of 2016, the cumulative performance would be:



The S&P 500 index was up 8.9% in the third quarter. We were down about 3% during the same period.

Our portfolio's underperformance were mostly due to the following reasons. First, the bifurcation of the market between growth and value has accelerated. The following graph by Vanguard[2] analyses the five-year rolling return differences between Russell 1000 growth and value indices. We can clearly see an acceleration of the growth outperforms in July 2020. It looks very similar to the tech-bubble period during 2000. In 2000, after the bubble burst, there was a massive value stock outperform. We are mostly value-based investing, and, we also held short indices ETF to hedge our positions. These positions caused problems during last quarter. Our long positions, mostly value stocks, did not perform well; while our short positions also incurred some loss. However, we recently saw some reversion in the market trend. As of the writing of this newsletter, Pfizer announced the 90% effective covid-19 vaccine. This caused a massive market adjustment, and we saw value and small cap stocks advanced, and the previously high-flying internet stocks receded.

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[1] We used the Interactive Broker's portfolio analytic data output. It included all actively managed accounts after all expenses and fees but exclude passive managed accounts. For detailed monthly return data, please see the other report (IB portfolio monthly PnL report). Performance data were not audited. Individual account performance may vary.

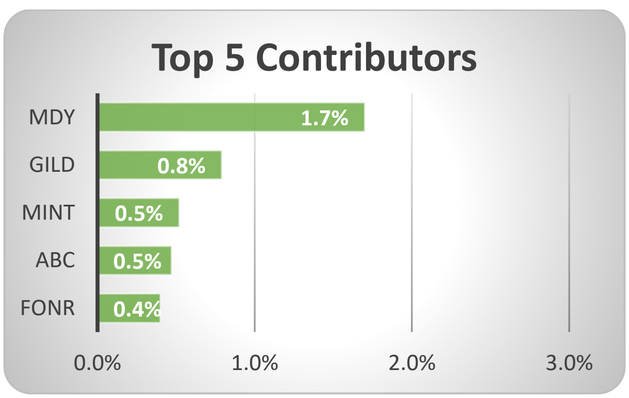
2 https://advisors.vanguard.com/insights/article/growthvsvaluewillthetideschange

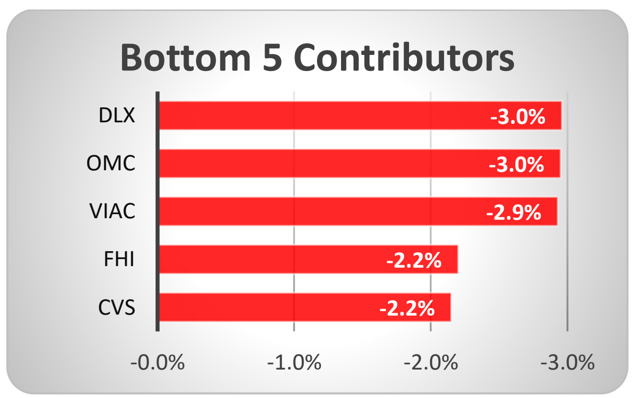
Difference in annualized total returns over rolling five-year periods

Source: Vanguard, using data from Russell, as of December 31, 1983, through July 31, 2020.

Secondly, we utilized some drawdown control techniques in our portfolio management. In layman's terms, the drawdown control techniques usually involves cutting positions to limit downside risk when the loss is approaching certain level. Drawdown techniques could save one from extended large loss during a prolonged market crash, but it could also miss the market rebound opportunities if the timing is incorrect. For example, one could cut the loss at the bottom, and lose to the upside when the market turned around. Unfortunately, this was what happened to us. The market has a V-shaped return in the last two quarters. We utilized the drawdown control techniques in the second quarter, and missed much of the up movement in the third quarter.

Our top and bottom five contributors for the first three quarters of 2020 are listed below. The top 5 contributors have a total PnL of 3.9%. The bottom 5 have a total PnL of -13.2%.





The top 5 profitable positions are:

1. The index hedging position (**MDY**) made profit because S&P 400 (the middle sized 400 company index) was down in the first 3 quarters.
2. Gilead Science (**GILD**) has the only FDA approved COVID-19 drug Remdesivir. GILD is one of our major positions. We sold some of our positions during the first quarter when the stock was relatively high, locking in some profit. In the third quarter, the stock price went down, we lost some of the profit compared to the second quarter's 2% profit.
3. Pimco Enhanced Short Maturity Fund (**MINT**) is an active manage short term fixed income ETF. We put our idle cash in this fund.

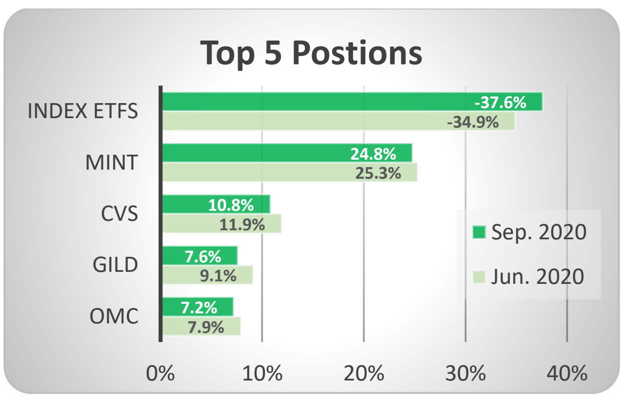
4. AmerisourceBergen Corp. (**ABC**) is one of the largest drug wholesale distributors. We closed out our position in the first quarter and locked in the profit.
5. Fonar Corp. (**FONR**) is a small medical equipment company specialized in upright MRI scanner research and MRI medical office management.

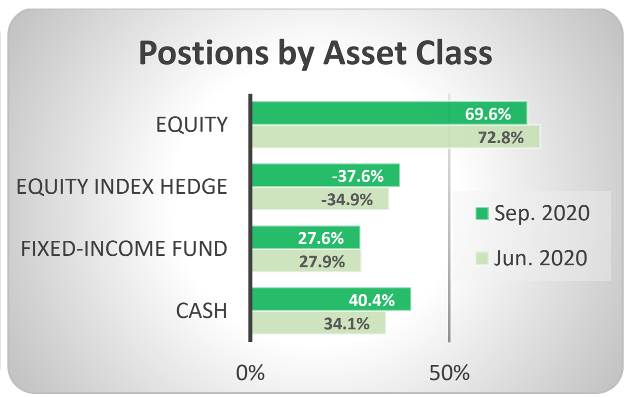
Our bottom 5 contributors are:

1. Deluxe Corp. (**DLX**) is famous for the check printing business. It mainly serves small business. The pandemic had a major impact on small business.
2. Omnicom Group (**OMC**) is a major advertising agency. Although it has more loss in the third quarter than in the second quarter, the company is well run and we are not too worried about the short term price changes.
3. ViacomCBS inc (**VIAC**) is a media company that operates the CBS TV network and the Paramount Picture film studios. We trimmed positions on this stock to control risk and the loss is realized.
4. Federated Hermes Inc (**FHI**) is a mutual fund management company. Its revenue, mostly in asset management fee, is correlated with the stock market. Due to our risk cutting in the second quarter, we realize some of the loss.
5. CVS Health Corp (**CVS**) is one of the largest health insurance companies and retailers in the U.S. It was our top contributor last year. The loss was due to a temporary price drop in the third quarter. The price has recovered since the end of September.

Major positions

Our top 5 positions and asset classes at the end of Sep. 2020 were:





MINT: Pimco Enhanced Short Maturity Fund , CVS: CVS Health; GILD: Gilead Science Inc.; OMC: Omnicom Group;

We further increased our hedging positions by about 2.5%. To control the risk, we also decreased the overall equity position by about 3%.

In summary, our third quarter under-performance was mainly caused by the stock market bifurcation which un-favor our investment style and our drawdown control techniques to reduce risk after heavy loss. Looking forward, we saw a reverse trend in the value investment style after the Pfizer effective vaccine announcement.

Hua Wei, Ph.D., CFA   on Nov. 16, 2020 in Orange, Ohio

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