Symmetry

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NEWSLETTER

Symmetry Invest

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Purpose of the Newsletter

Symmetry sends out a monthly portfolio report to the company's shareholders, detailing the month's returns, news from individual stocks, and much more. Additionally, periodic analyses of the investments are distributed along with an annual investor letter reviewing our largest positions.

The newsletter is not intended to replace or replicate the above reports, since they are issued exclusively to investors in Symmetry Invest. This newsletter is available to everyone and will therefore only describe individual stocks to a limited extent. Instead, it will review various developments and trends in the general market and explain how Symmetry navigates through different markets. However, we might occasionally mention specific individual stocks when deemed relevant. This can include both long positions, short positions, or stocks in which Symmetry has no position but has an interest.

The overall purpose of the newsletter is to increase awareness of Symmetry among current investors, potential investors, and other individuals interested in the stock market. Therefore, we will continually explain our strategy and make it as understandable as possible for the reader. We will also include quotes from well-known value investors and support our claims with graphs and other materials that can support our points.

We hope that as many of you as possible will find the newsletter readable and useful, and that it will help encourage more people to subscribe to the newsletter and follow us.

In the newsletter, "we" refers to Symmetry, and sometimes "I" refers to Andreas Aaen.

Disclaimer

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The newsletter is distributed to the following parties:

- Our website www.symmetry.dk
- Fund managers or investment advisors around the world, as it is common for investment managers to share ideas.
- Subscribers to Symmetry's newsletter registered on our website.

Symmetry operates under Danish regulation and can only market our fund to Danish professional investors. Therefore, this report should in no way be interpreted as marketing for funds advised by Symmetry.

Investing in stocks includes the risk of capital loss, and we always recommend consulting an authorized investment advisor before making investments.

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Symmetry does not receive payments from any company mentioned in this report other than our returns on stock ownership in the mentioned companies.

Newsletter

In the following newsletter, we will address the topics of Short Selling and the Fragility of Unit Economics. As always, returns and portfolio updates are sent to shareholders on a monthly basis and can also be accessed on via the website – but a summary is provided below:

Portfolio

Table: Historical Returns in Percent

The table shows historical returns and average net exposure since the founding in 2013.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Net exposure
2013						8.1			7.9			15.0	**34.1**	N/A
2014			3.2			10.2			2.8			17.0	**36.8**	N/A
2015			6.8			23.2			-13.3			5.7	**20.5**	76.0
2016			1.3			10.6			3.5			3.4	**19.9**	44.3
2017	6.2	3.2	0.7	4.0	5.1	-2.7	1.1	-2.7	0.6	3.3	-2.1	-0.7	**16.8**	46.5
2018	1.9	-4.5	-4.4	0.8	-0.8	-5.9	-4.5	-1.8	-0.9	-12.8	1.9	0.3	**-27.7**	75.2
2019	7.3	6.4	4.5	4.5	-2.4	6.3	0.5	-7.1	5.8	0.3	10.0	2.5	**44.4**	73.3
2020	2.0	-4.1	-37.2	22.6	14.5	10.1	1.2	9.0	-0.2	1.8	17.1	12.9	**40.4**	74.9
2021	9.0	8.3	8.0	5.0	0.1	-0.5	2.2	4.8	-2.7	3.9	-5.4	0.9	**37.8**	75.6
2022	2.0	-6.0	-2.3	-7.0	-1.0	-3.7	3.5	0.0	-7.9	8.2	-0.1	-2.3	**-16.4**	77.7
2023	4.4	5.1	-6.6	0.0	2.6	-2.2	5.2	0.9	-0.6	-6.6	6.0	7.5	**15.4**	75.8
2024	0.0	3.7	3.0	1.4	2.2	-3.2							**7.1**	73.2

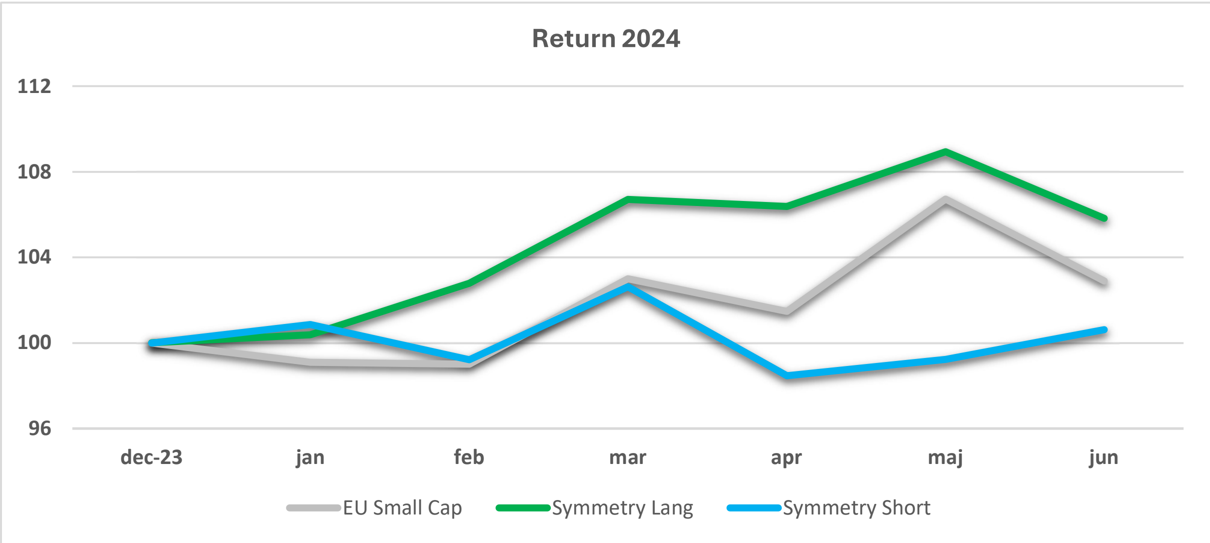
Table: Performance compared to benchmark

	Month	YTD	3 years	5 years	Total	IRR
Symmetry	-3.2 %	7.1 %	7.0 %	123.3 %	546.6 %	17.9 %
MSCI EU Small Cap	-3.6 %	3.1 %	-7.5 %	20.3 %	105.0 %	6.5 %

2024 has so far been another challenging year for Smallcap stocks globally. European Smallcap stocks have increased by 3.1 %, while American Smallcap stocks (measured by the Russell 2000) have increased by approximately 2 % by the end of June. At Symmetry, we have succeeded in outperforming the market once again, delivering a respectable return of just over 7 % net. While we are ambitious and set higher targets internally, we can be relatively satisfied given the current market conditions. The positive takeaway is that we achieved these returns by outperforming the market on both the long and short sides.

The data are unaudited figures and may therefore be subject to uncertainty. Numbers and figures are derived from Symmetry's internal systems, custodians, etc. Tt is our firm belief that they represent factually accurate figures. Return data and net asset value, however, are updated daily by the fund's manager and reported to the securities depository.

As illustrated below, our long positions with a return of 6 % have outperformed the market by approximately 3 % compared to the market's 3 %, and our short positions were roughly flat for the year – also about 3 % better than the market. This long/short spread of 6 % is the result of our consistent efforts to deliver superior performance every single day.



In our annual letter for 2023, which we published in April (available at www.symmetry.dk/nyhedsbrev), we described our portfolio in detail. During the first half of 2024, we have only bought two new stocks, sold out of two stocks, and made a minor rebalancing of the portfolio. In short, there is not much to report regarding our portfolio – we like what we own.

The underlying companies are performing well overall and are actually performing better than their stock prices indicate. This means that our portfolio is gradually becoming cheaper and cheaper, which we are perfectly fine with. One of my strongest sides in investing has always been my patience, which is the philosophy we adhere to at Symmetry. If we can see that underlying values are being created, we should, in principle, have infinite patience for these values to be reflected in stock prices.

Therefore, we will never sell our undervalued stocks just because they are not increasing in value and providing returns. What would we do with the money – invest in the latest hot market trend just because the stocks are rising? That would only mean we would end up selling cheap and buying high, which is the opposite of our strategy.

We are perfectly comfortable monitoring our existing portfolio and patiently waiting to be rewarded for the strong underlying development.

Short selling

One of the questions we are most frequently asked is why we short stocks and what value it brings to us. I recently participated in a Danish podcast for Børsen, where I discussed this topic and our thoughts behind the strategy. The podcast is in Danish, but some comments and points are listed in the article related hereto: [Investor scorer 18 pct. årligt afkast: Folk mener, vi er onde hyæner, når vi shorter (borsen.dk)]

One thing is certain – Symmetry would never have achieved a historical return of 22 % gross and 18 % net over 11 years without the ability to short. Returns at that level are usually only achieved through extremely high risk, leverage, or similar, but at Symmetry, we have used shorts to achieve these returns with lower market risk than with a traditional portfolio.

Our long portfolio typically consists of defensive value stocks in the Smallcap segment, where it is difficult to expect returns of +20 % annually. When investing in such stocks and additionally combining it with shorting fragile companies, it is possible to achieve the long-term returns we aim for.

We have had great success with shorts over the past 10 years, outperforming the market in 9 out of 10 years on the short side. Only in 2021 did we fail to do so – but 2021 was one of the worst years in history to short "shit-cos." In every other year, we have consistently outperformed the market. This also means that since the founding of Symmetry, we have had a positive return on our shorts, despite the overall market being in an uptrend during the same period – as illustrated in the graph above.

The illusion that "one cannot make money from shorts because the market rises over time" certainly does not apply to us.

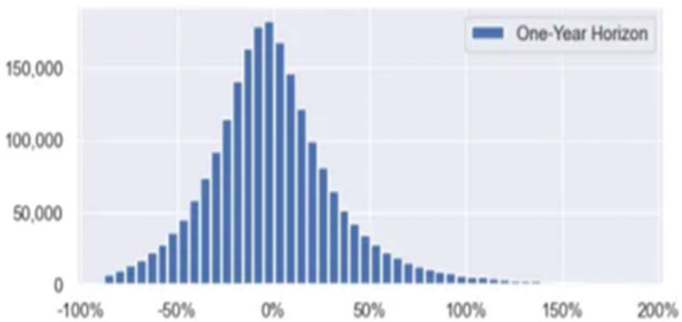
Median returns

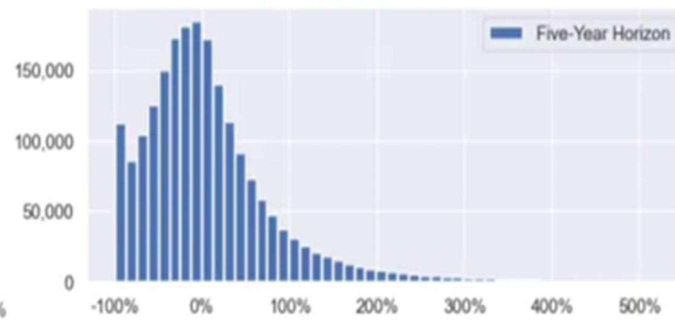
As mentioned above, I believe one of the biggest misconceptions in short-selling is the notion that "the market rises over time, so you can't make money shorting." In isolation, it is a correct assumption that the stock market rises about 10 % over time – but what few people know is that the average stock does not. It is often a handful of winning stocks that end up pulling the entire market upward over time. If you simply avoid shorting these, there is a large group of stocks where you can make money shorting over time.

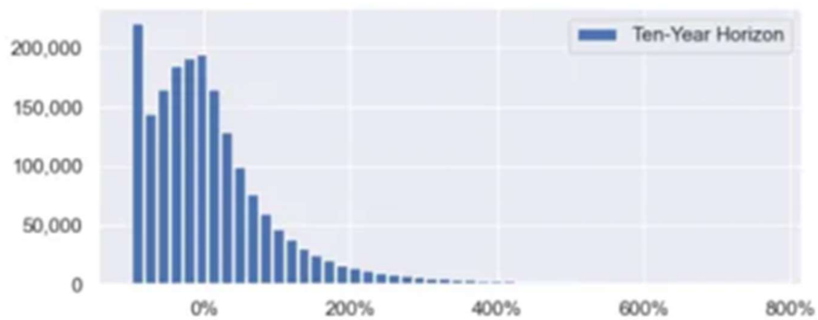
This is also why I have never believed it makes sense to hedge by shorting an index or an ETF. In that case, you would need macro knowledge and the ability to time the market. The article below excellently describes the difference between average and median returns.

[Average is not the same as median... - by Joachim Klement (substack.com)]

The graphs below from the article clearly illustrate this. When measured over a one-year horizon, there is a fairly normal distribution between winners and losers in the stock market, meaning that if you randomly select your stocks, it will be quite random whether you win or lose.







On the other hand, the graphs over 5 and 10 years show a different, clearer picture – that the distribution of returns has a long right-tail. As can be seen, the majority of all stocks deliver mediocre or negative returns over a 5–10-year period, where the long-term 10-year average return of the stock market is driven by a few winners.

In other words: by shorting, we do not need to find the losers in the stock market – we just need to avoid being short in the winners. It is actually not that difficult when you have some fairly simple rules for which types of shorts to avoid.

We are constantly refining our approach to continuously optimize our returns on our shorts and thereby the overall return of the entire portfolio.

Cyclical offset

Another important factor people forget about short-selling is that it gives you both liquidity and the courage to be both aggressive and defensive at the right times. Many of the dumbest decisions made on the long side are because people feel the need to be fully invested all the time. So, at the top of the market, where there are not many good ideas to invest in, most people just buy the next best thing or something that is too risky. However, if you have the ability to short, you can spend your time finding attractive shorts during periods when there are not many good long ideas.

On the other hand, an investor with a short portfolio has the possibility to afford and dare to be aggressive at the right times in the market. It is when the market goes down by 20 – 30 % and individual stocks drop by +50 % that you can make the purchases that define your career in investments. The problem is that if you are already fully invested and are down 30 % yourself – you do not have the ability to make these purchases. At the same time, you may be too scared to be aggressive when you need to be and instead think too defensively at the wrong time. Having a short book as an investor means you might only be down 10 % when everyone else is down +20 %.

When you are in that situation, you also often find the courage to be aggressive and buy. And at the same time, your short book ensures that you have the cash to buy at the right time.

The Fragility of Unit Economics

When I reflect on the last 3 – 5 years, there are many things we have learned. The most significant for me, however, has been understanding the importance of unit economics for companies – but also appreciating how fragile they often are.

I have always focused considerable time on improving my understanding of a company's unit economics, as different business models can have different attractiveness of its “units”. If you understand how profitable a restaurant is on the invested capital, you can determine how attractive it is to open new restaurants. If you understand how well a company is at making acquisitions, you can gauge the returns on future acquisitions. Or if you understand how attractive a software business is at acquiring new customers, you can understand how much they can spend on acquiring new customers.

This knowledge has certainly brought us high returns over the past 3 – 5 years. For example, in cases where we understood the business models behind the financial statements, where companies were in transformations, or where accounting principles made it difficult to immediately spot an underlying healthy company.

But it is also in these situations that we have made our worst mistakes – by underestimating how fragile underlying unit economics can be. One of the biggest mistakes we have made is to extrapolate good unit economics linearly into the future. In the short term, this can lead to:

1) That a growing company achieves greater scale.
2) That it improves the margins.

3) That it increases its value of existing and new customers.
4) That it can invest more in new customers and in better servicing of existing customers

The problem is that these short-term scale advantages are almost always offset by negative consequences. The fact is that the next unit or customer is almost always worse than the existing ones. This is something we have unfortunately often underestimated, even though it is logical in many ways.

When you own a restaurant with a good return on invested capital, you often want to expand and open a new restaurant. If, for example, you are a big hit in California, there is a high likelihood that you will also succeed in New York. The problem arises when you eventually open another restaurant that is close to an existing one, thereby cannibalizing its customers and reducing the returns for both restaurants. The same applies to marketing. Once you figure out how to get good customers on Facebook, there is a good chance you can also do it on Google, Instagram, or YouTube. But the problem is that you start with all the cheap customers. When you ramp up your marketing efforts, the customers just get increasingly expensive until they are no longer profitable. Therefore, good unit economics are rarely as scalable as one might think.

I was always aware of these things. I often valued companies based on a steady-state assumption, meaning they could always scale down their incremental costs and live off their existing business. What I ended up underestimating was the fragility of existing units. For example, in a SaaS company with an LTV/CAC of 4, it is not just 4. There is a wide spread of profitability among existing customers (especially regarding retention). What we have experienced is how, for example, declining gross margins hit the profitability of the existing business extremely hard. Companies are then forced to raise prices, leading to higher churn, and making it harder to attract new customers, etc.

Fragility obviously impacts different industries in different ways. In the restaurant industry, you can be hit by rising food prices. If your food prices suddenly increase significantly, the return on invested capital might drop from 40 % to 25 % at your best restaurants. But that is still a good return in many people's eyes. The problem is that this might cause the return on the last opened restaurant to drop from 15 % to 10 %, and on the next planned restaurant from 12 % to 8 %. Eventually, it will not be possible to cover your capital costs anymore.

Summary

So, what have we learned and what will we carry forward?

We still believe that our strategy of being a long/short fund works and suits us best. This has been proven by the returns we have delivered over the past 11 years, which have come partly from value appreciation on the long side, but also by being skillful in constructing our short book to deliver lower risk and reduce negative returns in falling markets - and generate positive returns in total.

The most crucial point, however, is that we will intensify our stress-testing of investment cases – especially regarding the fragility of the assumed unit economics in our models. We need to dive deeper into companies to identify potential vulnerabilities and what could invalidate our assumptions. This also involves being even more conscious of protecting the downside in an investment case – often, it is this focus that creates the upside in the long run.