Wealthpin Pro

JUNE 2023

Welcome to the June edition of Wealthpin Pro!

The last month has been conflicting, to say the least. At the beginning of May, the country seemed poised on the brink of recession.

But as of Friday last week, the markets have officially entered into bull market territory again.

Of course, technically you can java a bull market even during a recession, but it's rare.

So, the question becomes:

Are we really in a bull market? Or is it just another melt-up before the inevitable crash?

The hard part is, there are plenty of economic signals that could point us in either direction.

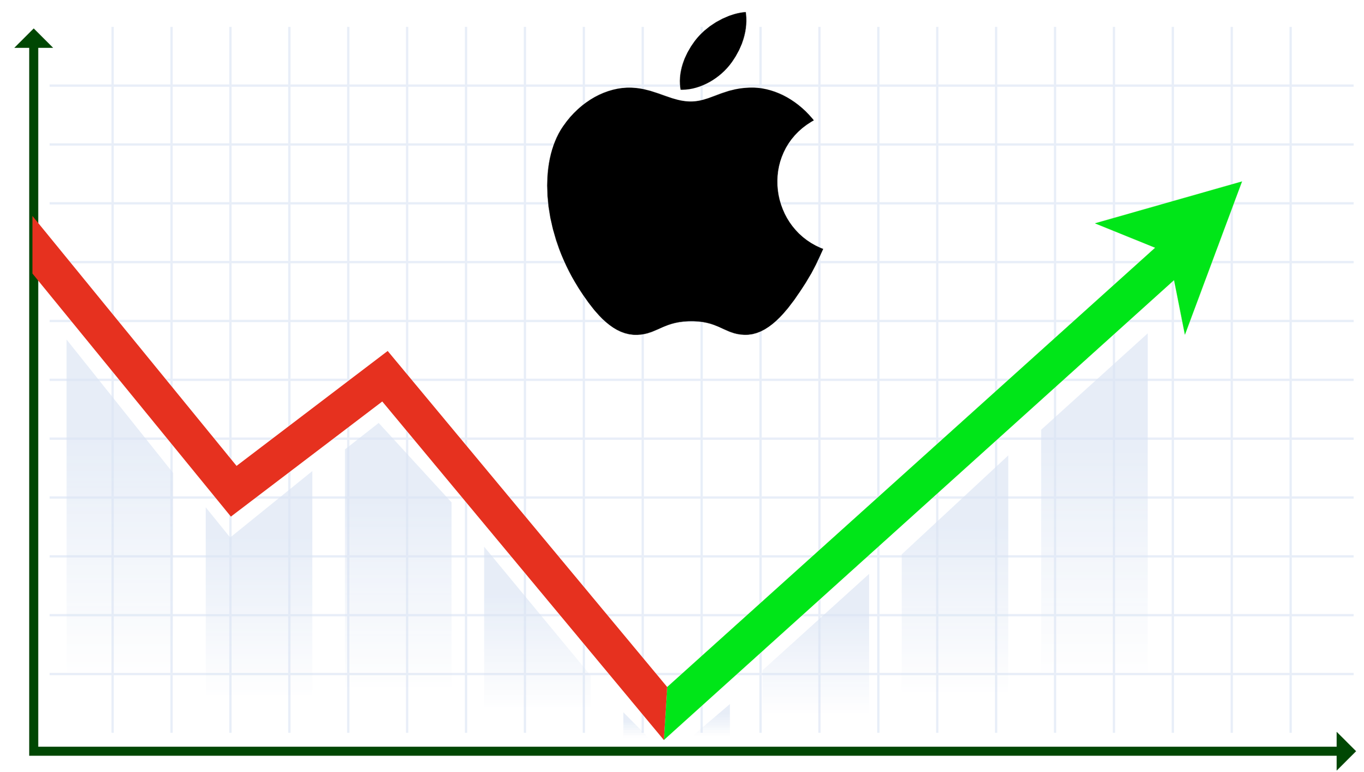
So, let's take a deeper look at the situation and see what we can find.

ARE WE GALLOPING TOWARDS A NEW BULL MARKET?

Last fall, the U.S. stock market found itself amidst a grizzly bear market. With inflation galloping at close to 8% annually and the Federal Reserve taking firm steps to hike up interest rates, the economic landscape was far from rosy. The S&P 500 had stumbled over 25% from its zenith, and the Nasdaq 100 had slid more than 35% down the hill.

However, since that October nadir, the Nasdaq 100 has made an impressive comeback, surging upwards by a staggering 37%. The S&P 500 didn't lag far behind, with a rebound of over 20% from its lows. Although we are yet to reach the dizzying heights of the past, the spirited rally has taken many by surprise, especially considering the majority were predicting an impending recession.

You can see this illustrated in the price action of Apple, the heavyweight champion of the U.S. stock market. The tech giant's stock plummeted nearly 30% from all-time highs last summer, only to rally back up by 35%. This upswing was short-lived as the stock took another 30% nosedive, and now it's almost clawed its way back up to all-time highs.



In less than 18 months, we've witnessed a rollercoaster of peaks and troughs, akin to a tumultuous ride of BOTH bull and bear markets. Technically, we could say we're in a bull market now since the stock market has risen 20% from its lows.

But the truth is, the strict definitions of "bull" and "bear" markets are only useful for market professionals. For the rest of us, bull and bear markets are only one component of our overall financial situations and lives.

For instance, In the world of investments, most would concur that the 1980s and 1990s were a golden era for the bull market. Many believe it took off around 1980-1982. However, it's easy to forget that between the end of the bear market in late 1974 and the end of 1979, the S&P 500 had soared almost 120% in total, or 16% annually.

This was in the midst of stagflation and a period that's generally considered "hard times" for many Americans.

A similar pattern emerged post the Great Financial Crisis of 2008, where we didn't hit new all-time highs until 2013. By then, the S&P 500 had rocketed over 150% or 25% annually from the lows of 2009. But again, you'd be hard-pressed to say that many Americans weren't still reeling from the effects of the Great Financial Crisis even as the market was shooting up.

So, in my opinion, it's best for us to stop trying to classify these broad market patterns as either bull or bear market.

It's not really useful for us as investors. Sure, it might inform us of a general strategy when we're looking at investments to buy or sell, but in the end, the marketplace is a complex organism. And just because it's a bull market doesn't mean all tech stocks are a good investment. Conversely, a bear market doesn't necessarily imply that defensive stocks will outperform, either.

As investors, we have to evaluate each company individually, on its own merits, and separate its financials and business model out of the noise. In other words, stop waiting for the world to fall, but stop waiting for the rally, too.

Evaluate your decisions on the here and now.

Let's just briefly go back in history again to explain a little more what I mean.

A walk down memory lane reminds us that devastating crashes are exceptions, not norms. From the 1940s through the 1970s, there was a 30-year period where the market didn't fall by 40% or worse. Yes, there were bear markets, but none were of catastrophic proportions.

While I'm not suggesting history will necessarily repeat itself, it's essential to remember that not every market downturn spirals into disaster. Bear markets can happen without the world's financial systems collapsing.

The challenge lies in the unpredictability. Just as it's impossible to time the exact peak and trough, we never truly know the magnitude or duration of bull or bearmarkets. The emotional rollercoaster we endure - panic in a downturn, euphoria in an upturn - remains a constant, while each market cycle presents a unique narrative.

If indeed we are trotting into a new bull market, it's wise to brace for some sort of pullback in the near future. Historical data shows that two out of every three years since 1928 have seen a peak-to-trough drawdown of 10% or worse. Almost 95% of all years experienced a drawdown of at least 5%.

The long-term trend of the stock market has historically been an upward trajectory, but it's a journey interspersed with short-term downturns. Whatever unfolds next will undoubtedly seem obvious when we look back. However, for now, we're not going to look into the future — we're going to play the ball where it lies.

A FEW FIGURES

Just to illustrate the difficulty and futility of labeling the economy as either bull or bear, take a look at the below screenshots.

The economy is rife with contradictions, and attempting to reconcile all of them into one of two classifications is near to impossible.

For instance, the market seems to have completely absorbed the interest rate hikes:

Bespoke
@bespokeinvest

S&P now exactly flat on a total return basis since the close on Powell's first rate hike on 3/16/22.

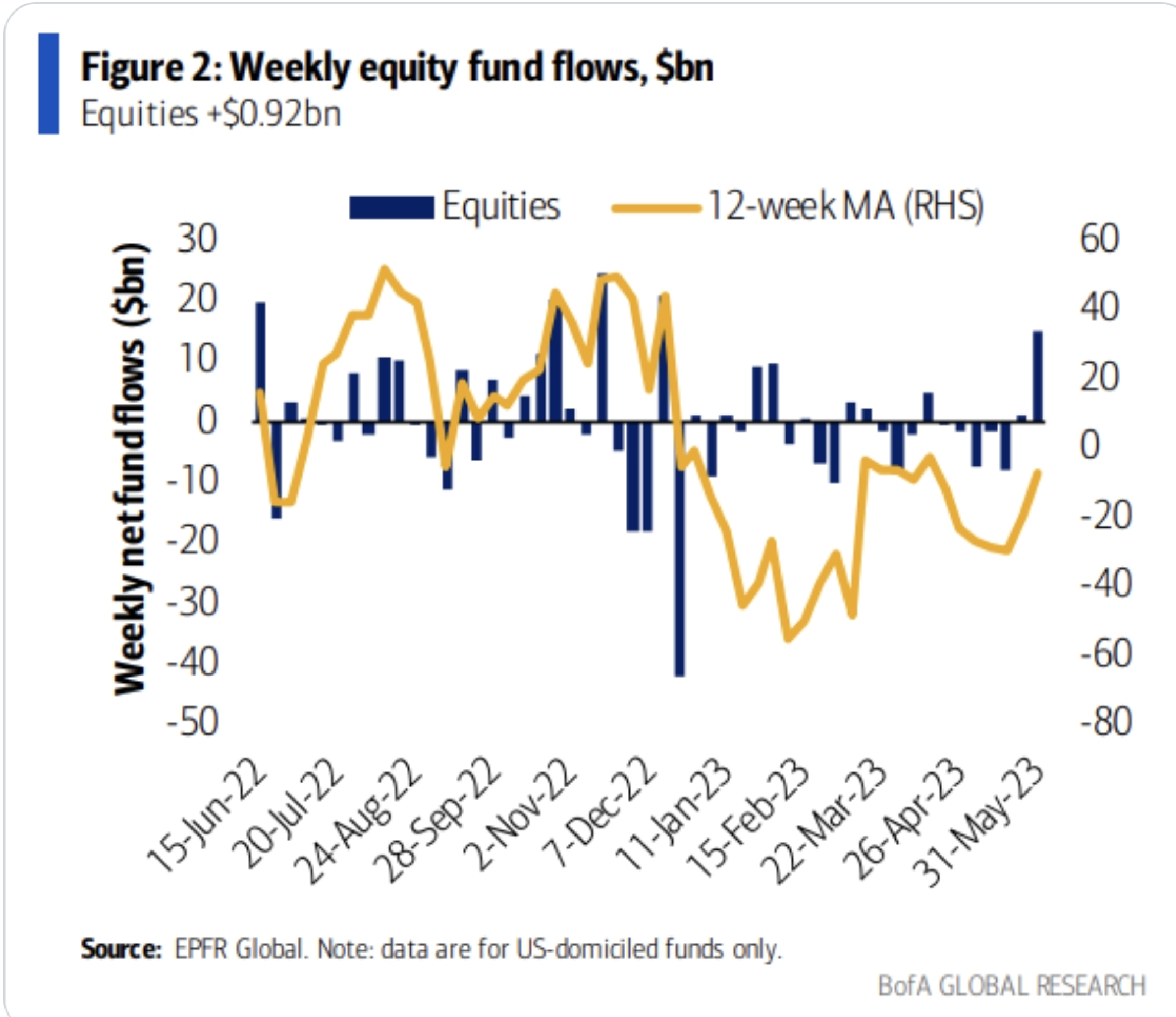
12:49 PM · Jun 2, 2023 · **905.7K** Views

58 Retweets **32** Quotes **269** Likes **20** Bookmarks

And judging by the cash influx into equities, we're firmly in bull market territory.

Mike Zaccardi, CFA, CMT
@MikeZaccardi

Biggest weekly equity inflow since the turn of the year. @justLBell



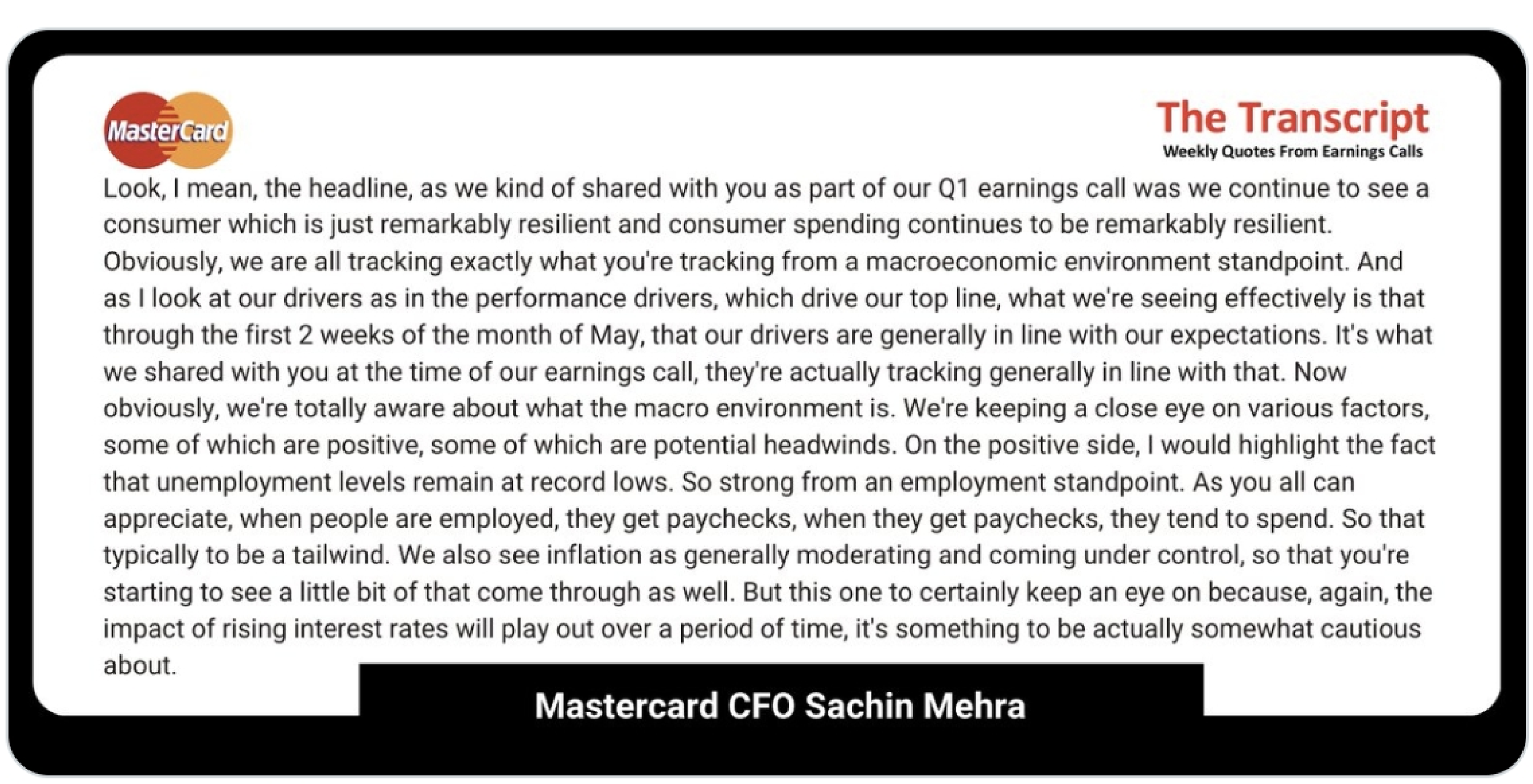
7:26 PM · Jun 1, 2023 · **20.4K** Views

People are spend, spend, spending, according to Mastercard.

The Transcript
@TheTranscript_

$MA CFO on the current state of the consumer:

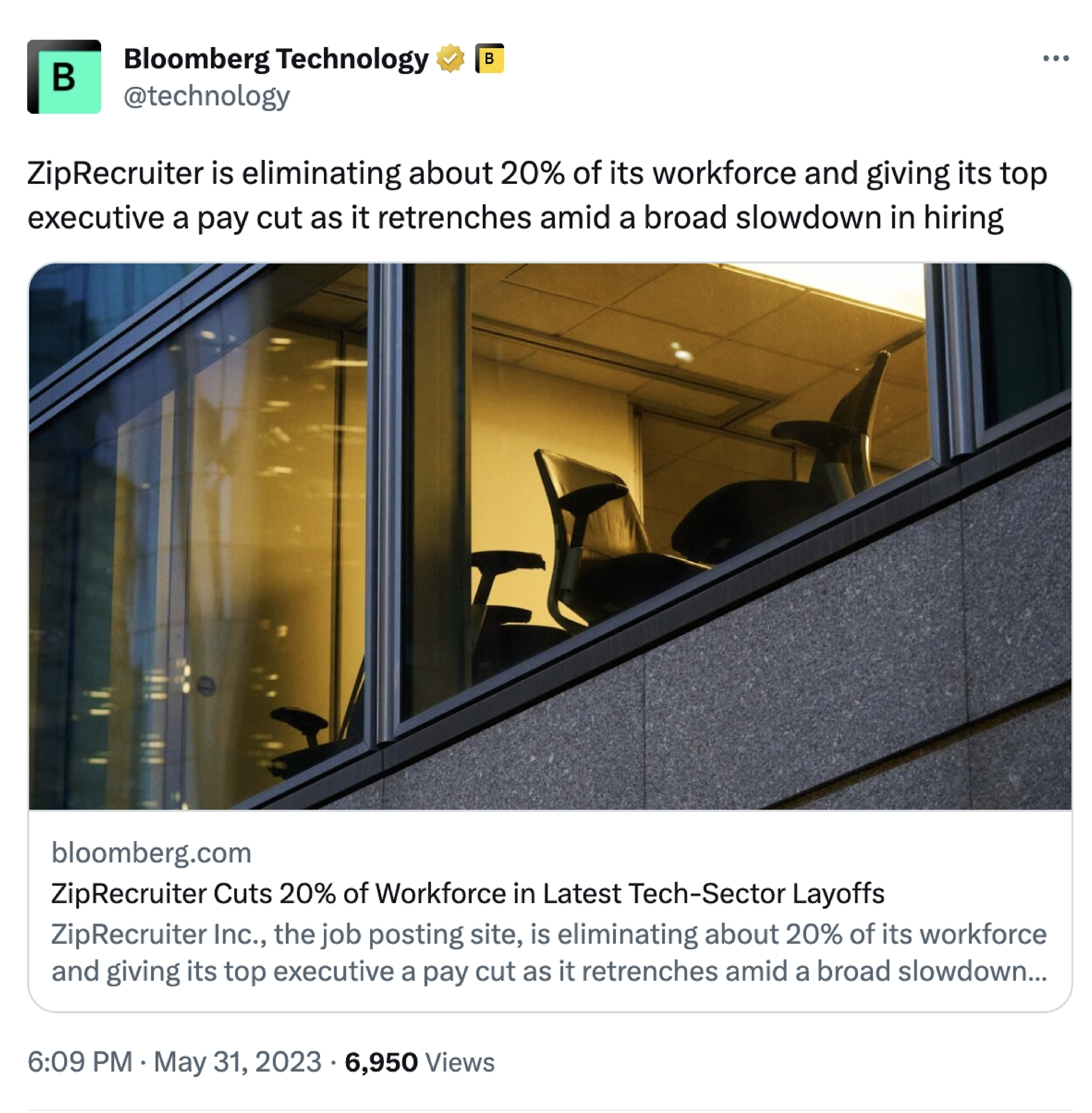
"Look, I mean, the headline, as we kind of shared with you as part of our Q1 earnings call, was we continue to see a consumer which is just remarkably resilient and consumer spending continues to be remarkably resilient"



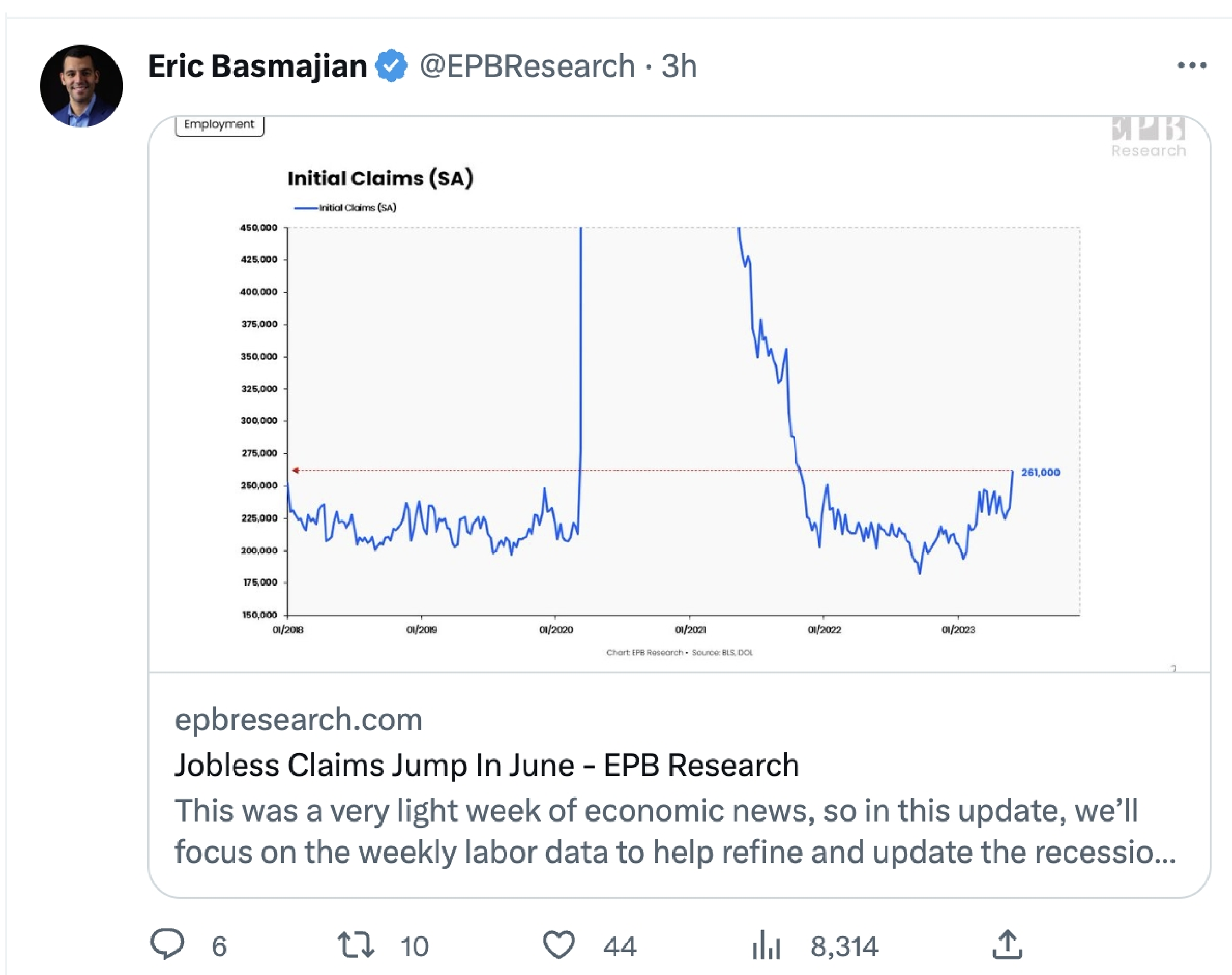
Look, I mean, the headline, as we kind of shared with you as part of our Q1 earnings call was we continue to see a consumer which is just remarkably resilient and consumer spending continues to be remarkably resilient. Obviously, we are all tracking exactly what you're tracking from a macroeconomic environment standpoint. And as I look at our drivers as in the performance drivers, which drive our top line, what we're seeing effectively is that through the first 2 weeks of the month of May, that our drivers are generally in line with our expectations. It's what we shared with you at the time of our earnings call, they're actually tracking generally in line with that. Now obviously, we're totally aware about what the macro environment is. We're keeping a close eye on various factors, some of which are positive, some of which are potential headwinds. On the positive side, I would highlight the fact that unemployment levels remain at record lows. So strong from an employment standpoint. As you all can appreciate, when people are employed, they get paychecks, when they get paychecks, they tend to spend. So that typically to be a tailwind. We also see inflation as generally moderating and coming under control, so that you're starting to see a little bit of that come through as well. But this one to certainly keep an eye on because, again, the impact of rising interest rates will play out over a period of time, it's something to be actually somewhat cautious about.

Mastercard CFO Sachin Mehra

But meanwhile, Zip Recruiter is cutting staff as hiring slows.



Meanwhile, jobless claims jumped in June:



And there's plenty of other data points like these that show just how many contradictions are lurking out there, if you're trying to put a label on the economy right now.

But here at Wealthpin, we're not going to do that.

We're going to play the ball where it lies.

Which brings us to our trade idea this month:

TRADE IDEA:

PALANTIR TECHNOLOGIES INC

PRICE AT PUBLICATION: $15.02

MARKET CAP AT PUBLICATION: $31.8 BILLION

52-WEEK RANGE: $5.92- $17.16

Palantir was founded by reclusive billionaire Peter Thiel, and its name was taken from The Lord of the Rings (Palantir is the elvish word for seeing stones).

ELEVATOR PITCH

Palantir is a leading force in the dynamic field of big data analytics. With a strong track record of serving government agencies and a growing footprint in the commercial sector, Palantir is a stable investment with a promising growth trajectory. Its expertise in turning complex data into actionable insights sets it apart from competitors, making it a valuable partner for organizations across various sectors.

Moreover, Palantir's financials showcase its potential, with consistent revenue growth, a positive GAAP net income, and robust projections for the future. The company's long-term, multimillion-dollar government contracts provide a stable revenue base, while its increasing commercial clientele opens avenues for expansion.

But I expect Palantir to be carried forward largely by its innovations in artificial intelligence. From predictive policing to managing global health crises, Palantir's AI applications were being used in the real-world far before the AI hype train kicked in this year. And I expect it to lead AI innovations going forward.

THE BUSINESS MODEL

Picture a complex jigsaw puzzle. Now imagine that each piece represents a piece of data. Some of these pieces are hiding in plain sight, while others are tucked away in obscure corners. What Palantir does, in essence, is to help organizations find these pieces, assemble the puzzle, and reveal the big picture hidden within.

At its core, Palantir is a software company that specializes in big data analytics. Established in 2003 by the likes of Peter Thiel (co-founder of PayPal) and Alex Karp, Palantir's initial goal was to support the intelligence community in the United States, particularly in the fight against terrorism. However, their scope quickly broadened, and they now serve a wide range of clients, from government agencies to Fortune 500 companies.

Palantir operates on two main software platforms: Palantir Gotham and Palantir Foundry.

1. **Palantir Gotham,** formerly known as Palantir Government, began as an innovative solution for defense and intelligence sectors. It's a platform that integrates, visualizes, secures, and analyzes information, enabling human analysts to make more effective decisions. In a world where an overload of data can be as crippling as a dearth, Gotham offers the ability to sift through the noise and find the valuable signals.

2. On the other hand, Palantir Foundry serves the private sector, breaking down the barriers between back-end data management and front-end data analysis. Imagine a world where your business's every piece of data, no matter how seemingly insignificant, is accessible, understandable, and actionable. That's what Foundry aims to offer. It's a little like having a team of top-notch detectives at your disposal, ready to uncover the hidden insights that can propel your business forward.

Now, you might be wondering:

"What makes Palantir different from other big data companies?"

The answer lies in their approach to problem-solving. Instead of offering off-the-shelf products, Palantir provides customized solutions. They first understand the unique challenges that a client is facing and then tailor their technology to meet those specific needs. This bespoke approach is a significant part of Palantir's allure and competitive advantage.

In terms of revenue, Palantir follows a straightforward model. They charge their clients for the software, along with setup services, maintenance, and additional support as required. However, it's important to note that due to the nature of their clientele and the complexity of the services, the contracts are often multi-year and worth millions of dollars. Therefore, while the company has a concentrated customer base, these customers bring in significant revenue.

THE FINANCIALS

Palantir recently released its Q1 earnings, and the results are what I like to see:

1. **GAAP Net Income:** Palantir posted a GAAP net income of $17 million, marking the second consecutive quarter of positive GAAP net income.

2. **GAAP Income from Operations:** The company achieved a GAAP income from operations of $4 million, representing a margin of 1%, up by 1,000 basis points year-over-year. This was their first quarter of positive GAAP operating income.

3. **Earnings Per Share:** Palantir reported GAAP earnings per share (EPS) of $0.01 and an adjusted EPS of $0.05.

4. **Revenue:** Total revenue grew 18% year-over-year to $525 million. The U.S. revenue grew 23% year-over-year to $337 million. Commercial revenue and government revenue also experienced growth, with increases of 15% and 20% year-over-year, respectively.

5. **Customer Growth:** The company's customer count grew by 41% year-over-year and 7% quarter-over-quarter. The U.S. commercial customer count increased 50% year-over-year, from 103 customers in Q1 2022 to 155 customers in Q1 2023.

6. **Cash Flow:** Palantir reported cash from operations of $187 million, representing a 36% margin, and an adjusted free cash flow of $189 million, representing a 36% margin. The company also reported cash, cash equivalents, and short-term U.S. treasury securities of $2.9 billion.

Looking ahead to Q2 2023, Palantir expects revenue to be between $528 - $532 million and an adjusted income from operations of $118 - $122 million. The company also expects to maintain its GAAP net income.

For the full year of 2023, Palantir forecasts a revenue of between $2.185 - $2.235 billion, adjusted income from operations of $506 - $556 million, and a GAAP net income in each quarter.

FUTURE BULL THESIS

A number of forces are priming Palantir for strong future growth. Let's dive into each of them below:

GOVERNMENT CONTRACTS

One of Palantir's distinct competitive advantages is its strong foothold in government contracts. This is significant because government contracts tend to be long-term and stable, providing a predictable revenue stream. Palantir's software, particularly the Gotham platform, was initially designed with the needs of government agencies in mind.

Over the years, it has proven to be an effective tool for agencies involved in law enforcement, intelligence, and defense.

These government entities rely on Palantir's software to integrate, visualize, secure, and analyze data, which aids in decision-making and strategic planning. As seen in their Q1 2023 report, government revenue grew 20% year-over-year to $289 million, with U.S. government revenue growing 22% year-over-year to $230 million.

Law Enforcement Agencies

Intelligence Agencies

Defence Agencies

For instance, just last week, it was announced that the company had just inked a deal with U.S. special operations command worth $463 million. Palantir will be providing its big data and AI services to help our special forces decipher the petabytes of intelligence data that they need in order to successfully carry out operations.

Given the ongoing need for such services and the increasing amount of data generated, it's reasonable to anticipate that Palantir's government contracts will continue to grow, contributing to the company's stability and longevity.

LEADERSHIP IN AI

Palantir's growth potential is also tied to its leadership in the field of artificial intelligence (AI). AI is no longer the stuff of science fiction; it's epxloded into the miantream in a big way over the last couple months. But Palantir has been at the helm of AI applications for years.

For instance, Palantir's AI technology is leveraged in predictive policing. It helps law enforcement agencies identify crime hotspots and predict potential criminal activity based on historical data and pattern recognition. The use of AI enables these organizations to allocate resources more effectively and proactively address crime.

In the healthcare sector, Palantir's software aids in predicting disease outbreaks and managing public health crises. During the COVID-19 pandemic, for example, Palantir's technology was used to track the virus's spread, manage resources, and assist in vaccine distribution. It demonstrated how AI can be a powerful tool in tackling unprecedented global challenges.

Moreover, in the private sector, Palantir's Foundry platform uses AI to help businesses make sense of large amounts of data. This allows companies to gain insights, streamline operations, and make strategic decisions based on data analysis. As companies continue to understand the value of data-driven decision making, the demand for Palantir's services in the private sector is likely to increase.

Palantir's tech has even been used in the Ukraine-Russia war. Ukraine has used Palantir's predictive AI tech to increase the accuracy of its artillery strikes.

CONCLUSION

Palantir's improving balance sheet, long-term government contracts, demonstrated record as an industry-leader in AI and big data, as well as secular trends pushing this kind of tech into the mainstream lead me to believe that Palantir will be an excellent investment going forward. Which is why we're adding it to the model portfolio.

To your wealth,
Alex Reid
Founder, Wealthpin Pro