

## Monthly Depth Report – February 2022

I'm very happy to welcome many new Danish subscribers. It was a pleasure to be [interviewed](#) again by Invested.dk where we discussed hedging for interest rates and inflation. As noted last month, Deep Knowledge Investing subscribers have been well-prepared for these crucial issues since last [November](#). During the month of February, our inflation hedges (gold, silver, oil, and Bitcoin) all went up, and our interest rate hedges (short the S&P 500 and the NASDAQ) all went down indicating they were profitable trades.

I'm writing this from Cusco, Peru. It's a fascinating and charming place. The architecture and red-roofed buildings built into the mountains surrounding the city are beautiful. The people are warm and friendly. And Peruvian cooking is fantastic. I still find it amazing that I can be on another continent and be just as productive as at home. The always-on internet can make it hard to sleep and disconnect at times, but it's nice to be able to work in different places and experience other cultures. I think a change in external circumstances leads to a change in thinking which helps me see market events from a perspective that often differs from conventional wisdom. Out of such moments, we find high-return investment ideas.

On the individual stock side, we were able to declare victory in Houghton Mifflin Harcourt (ticker: HMHC). We first recommended the stock thirteen months ago at a price below \$5. Over the following few months, we bought more around \$6, and again below \$10. We continued to recommend the stock at \$18 a day before it was announced that HMHC would be acquired for \$21 per share in cash (about 4.3x our initial investment).

Coursera (ticker: COUR) and Enova (ticker: ENVA) both announced fantastic 4Q results that confirm our positive thesis for each stock. Both stocks were roughly flat for the month and tend to be sensitive to interest rates in the short-term. We're focused on long-term fundamentals and like what we're seeing there.

Las Vegas Sands (ticker: LVS) had a fascinating month. Previously, we reported to you that the guidelines for casino license re-tendering in Macau were much less onerous than had been feared. LVS traded up on the news, and the sale of the Las Vegas Venetian was completed for the announced \$6.3 billion, a huge price. The stock has traded down in recent days due to the invasion of Ukraine by Russia. The entire travel and leisure sectors of the market have declined as war tends to be bad for those sectors of the economy. We note that while war often has unintended consequences, the probability that this conflict reaches Macau is remote, and we don't think it will change the desire of the Chinese people to gamble. Earlier this week, officials in the Chinese government were openly discussing the possibility to ending the country's zero-Covid policy which would lead to a significant improvement in cash flow for LVS.

We also recommend taking the time to watch this [interview](#) with Heather Heldman, Managing Partner of Luminae Group and member of the DKI Board of Advisors. Heather is an expert on international political risk analysis, and she sees the conflict in Ukraine lasting from a couple of months to a couple of years. We'll be living with the impact of economic sanctions for a while, and while most of the media is focused on the negative effects of sanctions on Russia, we note that it's going to affect inflation here in the U.S. I'll be running an article in the newspaper about that issue later this week.

On a personal note, I was reminded of one of my favorite stories last week. My grandfather fought with the 80<sup>th</sup> Airborne in Europe during WWII. One night before they were about to go into battle, the company Chaplain approached my grandfather. Respecting his Jewish heritage, the Chaplain kindly asked if my grandfather would mind if he prayed for him. I've always admired the kindness and generosity of this Chaplain who in a difficult moment offered my grandfather both the comfort and protection he could while respecting my grandfather's differing religion. My grandfather summoned an equal amount of kind respect, smiled, and said to the Chaplain, "Father, I'll take all the help you've got!"

With much less on the line, I found myself on a tour of Cusco with a stop for a ceremony with an Incan Priest. He cleansed my spirit with a condor feather, and through coca tea leaves offered my non-material wishes to the mountains. I'll admit that I paused for a second, and then remembered my grandfather and the kind Chaplain. I smiled, accepted the Priest's good wishes gracefully, and thanked him warmly. There was also an ancient Incan drinking ceremony, and keeping an open mind, I joined that as well.

We know that market volatility, high inflation, record negative real interest rates, and a Federal Reserve that appears to be trying to destroy people's savings can create a lot of uncertainty and anxiety. We're comfortable operating in a challenging environment. We won't be right about everything, but we own every position we recommend, and we'll do all we can to help you navigate through any difficult months ahead.

If any of you have questions, concerns, or thoughts regarding issues we should address in a future depth report, please feel free to reach out to me at [IR@DeepKnowledgeInvesting.com](mailto:IR@DeepKnowledgeInvesting.com). If you think a friend, RIA, family office, or portfolio manager would be interested in this monthly commentary, please feel free to pass it on to them.

Thanks for being part of Deep Knowledge Investing,

Gary Brode



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