

## Monthly Depth Report – January 2022

I'd like to welcome all of the new subscribers as the number of you following us has doubled in the last two months and we're grateful to have you. The big story of the month has been the huge increase in inflation, and the long-awaited announcement from the Federal Reserve that it was going to start to deal with the problem. The January CPI number was 7.1%, a multi-decade high. We think that figure understates the issue.

A more accurate look at the increase in housing prices would bring the CPI to over 12%, and we're certain that food prices are up more than the reported 6%. For most of you reading this, we'd estimate you've seen an increase in your cost of living in the neighborhood of 12% - 15% and even more if you had to buy a car in the last year. As soon as the Fed responded by talking about raising rates, the market promptly fell to "correction" levels (down more than 10%).

Deep Knowledge Investing subscribers were well-prepared for this. On November 8<sup>th</sup>, we published "[A Primer on Inflation and How to Hedge](#)". More importantly, on January 8<sup>th</sup>, we got subscribers prepared to hedge their portfolios for higher interest rates. In that [piece](#), we told premium subscribers we were shorting the S&P 500 (down 7.5% in 3 weeks), shorting the Nasdaq (down 10.2% in 3 weeks), and buying puts on the S&P 500 (One series up 198% and another up 103% in the same time frame). For those of you considering subscribing, we suspect that following those recommendations would have **more than covered the cost of your subscription for a few years.**

On the stock side, it was an eventful month for two stocks we've covered. Las Vegas Sands (ticker: LVS) had a rough 2021. Constant Covid outbreaks combined with China's zero-Covid policy meant that Macau kept experiencing travel restrictions, or at times, being completely closed. All of that was exacerbated by a great deal of uncertainty regarding the coming expiration of the Macau gaming licenses. Early re-tendering information offered by the Chinese

government wasn't encouraging. We continued to hold the stock because we thought the Chinese government had an incentive to keep the existing gaming licenses in place, and because we think that at some point, a zero-Covid policy isn't sustainable.

A couple of weeks ago, the government announced that there would be six gaming licenses awarded (a match for the six currently operating in Macau), and clarified some issues that were worrying the market. It also looks like the new licenses will be for 10-13 years which isn't as long as the prior 20-year licenses, but better than had been feared. The stock has recovered and is now above the level where we made our initial recommendation, but it's been a rocky ride. In other news, the company is in the process of selling the Las Vegas Venetian for \$6.3 billion, a huge price, and continues with expansion and renovation in Singapore.

Houghton Mifflin Harcourt (ticker: HMHC) has been much more pleasant for Deep Knowledge Investing subscribers. We initially recommended the stock below \$5 last January, and re-recommended it and kept purchasing it over the next few months. Earlier this month, the company announced it had hired bankers and was speaking with private equity firms about selling itself. In addition, HMHC is in a position to retire high-cost debt with the proceeds of an asset sale done in 2021. So regardless of the sale outcome, we expect earnings and free cash flow to continue to improve. **The stock has more than tripled in the year we've owned it.**

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). Subscriber growth has been fantastic over the past few months, and at the request of new

members, we've also added a new page to the website detailing all of our current stock, inflation hedging, and interest rate hedging recommendations (available [here](#)). 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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