

## Prices are down quite a bit. How are you feeling about the current environment?

**AA:** It's frustrating, but nothing out of the ordinary when you zoom out and look at the big picture. This is a typical market cycle. Markets go a little haywire every decade or so, which is why I think it's so important to always go back to basics... We own *businesses*. All the attention is on the market prices, but I'm focused on the actual businesses and their fundamentals. Are we dominating? Are our customers happy? Is the business expanding? Is the valuation compelling when I take a multi-year view?

If the answer is yes, and the value of our business is increasing, I don't worry too much about the stock price in the short-term. And that's pretty much how I'm feeling right now – our businesses are thriving, and prices should inevitably bounce back. Our assets drive performance—the fundamentals and trajectory have not changed. This is the best way to compound wealth over the long-term. Markets overreact in the short-term, but over a period of years, prices catch up and reflect value. Remember – back to basics.

I know this is frustrating to see falling prices on our businesses. But you should remember that it's just a bid. Some days we get good bids, some days we get bad bids. That's fine. The most important thing is that we own #1 businesses—that's the key.

I should also point out that these types of corrections are generally healthy -- they tend to wash out all the excesses that build up in the market over time. And there was a lot of excess built up in 2020 — crazy SPAC valuations, fake electric vehicles companies, meme stocks. There was some crazy stuff.

Anyone on margin, leverage – they've got to go. I've lived through a bunch of corrections and crashes – in 1987, the Nasdaq Bubble, 08-09, etc. I've also studied the S&P 500 history back to its inception—these boom-and-bust cycles are natural. They come every 10, 15 years. The winners recover quickly, and the losers never make it back.

So - hang in there. I know it may not feel like it, but this is all normal. Give it a few months. These corrections don't last forever, especially for premier growth businesses that tend to rip right back once the dust settles. And that's my expectation, by the way. I don't see this drawdown lasting for a particularly long time, at least not for our businesses... When sentiment shifts, I think you'll be surprised by how quickly we come back and reach new highs.

So sleep easy. The most important thing to remember is that we own real businesses whose value has only increased over the last year. At some point, and maybe soon, we'll get a better bid. Until then, hang tight and try not to pay too much attention to market prices – it's just noise. We're not getting a good bid today – that's fine, we weren't planning to sell anyway. I'm not concerned whatsoever, and you shouldn't be either.

Truth be told, I'm more bullish now than *ever* about the businesses that we own. I think we're in for a fantastic next couple of years. With Tesla especially. Once sentiment shifts, I expect a speedy recovery in prices—back to new highs and beyond...

## What are your thoughts on Elon Musk right now—and Tesla?

**AA:** Elon's an incredible businessman. He's probably the best entrepreneur I've ever studied. But he's also human and he's a complex guy. I don't really have an opinion on him—all I care about is Tesla's business, which is entirely separate from the headline drama. My calculation for fair value for Tesla's stock today is in the high teens – maybe around \$2,000 by early next year.

I believe Tesla is just in a class of its own. No other company is growing almost 80% per year at this scale, with increasing margins and operating leverage. I've never seen anything like it. Wall Street still doesn't get it, and that's fine. They will. Give it a few more quarters, and the earnings growth will boggle their minds.

Within the next year or two, I think there's going to be a scramble to get our shares. And that's when things are going to get exciting. I happen to think Tesla will soon be Wall Street's favorite stock – it's got everything they love in a darling: huge growth into a global market, expanding gross and net margins, endless demand—and it's a big cap stock, which makes it highly liquid for institutions to own. As a reference, look at Amazon. It was hated by Wall Street in the early to mid-2010's when we built our position, and ultimately rated a "buy" by pretty much every sell side analyst over the past few years.

On FSD – it's not priced into the stock, but the advances are incredible. When Tesla achieves full self-driving—whether it's this year or in 2023 or in 2024—it could be the biggest valuation repricing event of the century.

And we will be there to enjoy that windfall.

## Are we heading into a recession? If so, are you going to change anything about the portfolio?

**AA:** I think we're midway through a recession already. GDP was negative in Q1. It will likely be negative through Q3. Markets tend to bottom midway through a recession, so that's a positive.

I'm not changing anything in the portfolio in this environment. Stocks are still the place to be. Bond yields are still low. Even if there's cash on the sidelines now, I think it eventually has to come back into the market.

## If prices are cheap, are you looking to buy any new businesses?

**AA:** In the main funds, we have a watchlist of about a dozen businesses. We're not buying anything imminently, but that could change quickly. For now, we're focused on the core holdings.

If you're looking to invest additional cash, now's probably a good time while prices are cheap. Could things get cheaper? Of course. But I like the setup for the next few years.

As you know, we also launched the new fund, which I'm enjoying managing. There's a range of businesses in that portfolio that we like—all dominant, #1 type of businesses in a range of industries. Those businesses also happen to be a wider mix of more traditional value and growth businesses.

## Are you concerned about high inflation and interest rates and the broader macro context?

**AA:** Nope. If I've learned anything from 30+ years of doing this, it's that there's always a reason to be afraid in markets. There's always a boogeyman. "But this time is different." Nope – it's not. The key to investing is simple – stay focused on the winning businesses. That's all that matters in the long-run.

On rates – don't get me started on the Fed. Between us, I think they're a bunch of yo-yo's. They're reactive and always behind the curve. What they're doing makes some sense, though. They raise rates to crush inflation, which slams stocks in the short-term.

Over the long-term though, it's noise. The key is fundamental *business* growth—we don't need low interest rates to thrive. Remember that next time you turn on CNBC...

## Do you still believe it's best to be concentrated in this environment?

**AA:** Absolutely. If you have a multi-year time frame and you want to beat the market, this is the only way to invest. In fact, I think being concentrated in a select group of winning businesses in this environment actually lowers our risk. I know that's not how Wall Street thinks—that's okay. I embrace the day-to-day quote risk, but I absolutely will not tolerate business risk. I don't invest in story stocks.

I tell my team constantly—we need “wheels on the ground.” The best way to lower risk is to own the best businesses. Owning a small grouping of these businesses that are beloved by customers is the best way to mitigate risk over the long run.

## What are you doing during this volatility?

**AA:** I'm in the research bunker with the team, which is where I love to be. I like to use frustrating periods like these to go deep on the research and tune out most of the noise.

Plus, I caught a ballgame recently – Mariners, right behind the plate, with my son. It was great.

If you have any questions, shoot us a note and we can set up a call.

As a final note - I couldn't be more excited about the next few years. We own dominant global businesses whose value is compounding every month, every quarter, and every year. I believe prices will catch up.

Imagine the pilot's voice: “Just a bit of turbulence, but nothing out of the ordinary. We'll be at the destination soon.”

That's how I'm feeling—the bumpiness is just part of the ride.

## May 2022 – Interview with Arne Alsin

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