Drumoak Capital – October Buying Report 2025

DRUMOAK
CAPITAL

Part 1 – Executive Summary

Letter to Investors

As we enter the fourth quarter, our plan is straightforward: compound capital without chasing price. Over September, we trimmed select winners and lifted cash so we can be prepared buyers on weakness rather than momentum chasers. For October, we intend to build positions in seven high-conviction equities featured in this report, adding to them deliberately rather than all at once.

We execute with phased dollar-cost averaging over four weekly tranches. Tranches are released only if our Macro Dashboard, volatility, credit spreads, real yields, and labor/inflation trends remain within tolerance. When that backdrop deteriorates, we defer or resize tranches and widen buy bands; when it improves, we proceed. In short, the regime, not the calendar, sets our pace. We are also tilting modestly more defensive at the margin. During periods of uncertainty, roughly half of deployable cash will be directed to the seven equity positions via DCA, while the balance will be reserved for defensive exposures to stabilize portfolio volatility and preserve liquidity. This balance is dynamic: it leans back toward equities as conditions strengthen and leans toward ballast when they do not.

Our selection discipline is unchanged. We focus on strong, growing businesses with clear execution plans and monetization paths over a 12–36-month horizon. Within that universe, we favor three types of opportunity: core compounders that can grow earnings through cycles; sound franchises undergoing operational repair with identifiable milestones; and a smaller sleeve of idiosyncratic ideas sized to their certainty and liquidity. We will not pay any price for growth, nor rely on heroic assumptions. Price matters, and thesis quality matters more. We remain constructive yet vigilant in the near term. We expect continued progress from companies monetizing practical AI, steady improvement from select consumer names executing product and channel resets, and normal seasonal operating leverage into the holidays. Against that, we are mindful of macro risks such as a softer consumer, advertising budget caution, higher real yields, and currency headwinds. These do not change what we want to own; they influence how quickly we buy it.

Performance will continue to be reported time-weighted at the strategy level and money-weighted at the account level, with results shown net of transaction costs and estimated slippage. We will stay transparent about what we own, why we own it, and how we deploy your capital, buying good businesses at sensible prices, adding when the odds improve, and letting time and discipline do the compounding.

Part 2 – Target Deployment

This is our deployment map for October—an allocation of *available* capital across names we're willing to buy at or below preset buy bands. It is a ceiling, not a quota: tranches are released only when price and conditions are right (Macro Dashboard checks); otherwise, unspent tranches remain in cash. We will resize or skip tranches around earnings, liquidity, or KPI changes. The plan is reviewed weekly and updated as evidence accumulates.

Table ES‑A: Target Position Map

Ticker	Status	Target Wt %	Tranche %NAV	Buy Band (from spot)	Primary KPI	Earnings Window
AMZN	Buy	8–12	0.5–1.0	−3/−6/−9%	AWS QoQ, Ads growth	30/10/2025
ADBE	Buy	6–9	0.4–0.8	−5/−10%	Creative ARR, Acrobat attach	Estimated: Mid-December
CRM	Buy	5–8	0.4–0.8	−5/−10%	Data Cloud attach, margins	26/11/2025
PYPL	Buy	3–5	0.3–0.6	−5/−8%	Checkout share, TPV mix	28/10/2025
NKE	Accumulate	3–5	0.3–0.6	Weakness adds	NA/China trends, GM	Estimated: Mid-December
CAKE	Hold/Dips	2–3	0.1–0.3	Inputs ease	4‑wall margin, traffic	04/11/2025
PATH	Spec Buy	1–2	0.2–0.4	−8/−12%	ARR, NRR	04/12/2025
BIDU	Hold/Buy	1–2	0.1–0.3	Deep value	AI Cloud growth	20/11/2025
HNST	Hold/Buy	0–1	0–0.2	Dist. wins	GM, retail doors	11/11/2025

Part 3 – Macroeconomic Risk Dashboard

The Macro Dashboard is not a forecast; it is our throttle, it governs how fast we deploy, not what we own. We track macro and geopolitical developments (rates, inflation, credit, currency, elections, conflicts, supply chains) to set pacing, buy bands, and cash levels for new entries. Short-term shocks can change the path of our buying, but they rarely change our destination: high-quality businesses we underwrite over 12–36 months. In practice, we stay close to the data and adjust flow, while refusing to let headlines rewrite long-term theses.

Table M-1: Macro Dashboard

Pillar	What we're seeing	Our take	What we'll do	Pillar
Growth	Manufacturing flat, services okay; overall growth modest.	**Mixed**	Keep core weights; avoid high-beta cyclicals.	**Growth**
Inflation	Goods cooling; services still sticky.	**Caution**	**Slow DCA a notch** until next CPI/PCE.	**Inflation**
Policy (Fed)	On hold; balance sheet tightening continues.	**Caution**	Prefer strong balance sheets/pricing power.	**Policy (Fed)**
Labor	Hiring cooling; wages easing.	**Mixed**	Favor profitable names with cost discipline.	**Labor**
Credit	Spreads calm; funding open.	**Supportive**	Proceed with plan; watch for sudden widening.	**Credit**
Liquidity (USD/real yields)	Dollar firm; real yields elevated.	**Caution**	**Widen buy bands** and keep cash flexible.	**Liquidity (USD/real yields)**

Part 4 – Company Evaluation

Each company note sets out, in brief, why we are buying (what we are paying for and why now) and what could change our view over a 12–36 month horizon. We highlight the key drivers, the few proof-point KPIs we will monitor, and the principal risks that would trigger a thesis review or a slower pace of adds. These summaries are decision tools for tranche release and position sizing; they are not full valuation models. As evidence improves, we add methodically; if it weakens, we defer, resize, or exit.

Amazon (AMZN) — Target 8–12%

Amazon is driven by three businesses: AWS, advertising, and a leaner retail/logistics network. Gross margin is now above 50% and net margin is around 10%. Over the last twelve months, operating cash flow was about $121B and operating income about $76B, showing that recent investments are paying off. Custom chips and managed AI services make AWS cheaper to run and easier to adopt, while Prime Video ads add a new, growing surface for advertising.

What we want to see next is simple: steady AWS growth with improving margins, continued ad growth, and stable profitability in North America retail. If those appear, free cash flow should keep rising faster than revenue. Main risks are high capital spending, regulation, and softer ad or retail demand.

Adobe (ADBE) — Target 6–9%

Adobe earns exceptional economics from Creative Cloud and Document Cloud, with gross margin near 90% and net margin near 30%. Revenue has risen at a double-digit pace for years, and buybacks add to EPS growth. Generative AI features (Firefly) and Adobe Express are being built into core products, which should lift engagement and average revenue per user.

To keep the thesis on track, we want to see healthy net-new ARR, good uptake of Firefly in paid plans, and continued operating discipline. Risks are customer pushback on pricing, new AI competitors, and a slower marketing cycle.

Salesforce (CRM) — Target 5–8%

Salesforce has doubled revenue in five years while expanding margins. Gross margin sits in the high 70s to about 80%, and net margin is roughly 20% with room to grow. The focus now is on Data Cloud, Einstein, and Agentforce. These tools help customers use their own data and automate work, which should raise spend without adding headcount. Ongoing buybacks reduce the share count and support EPS.

We are watching net-revenue retention, adoption of Data Cloud and Agentforce, and year-on-year margin expansion. The biggest risks are slower enterprise budgets, slower AI monetization than hoped, and competition from large platforms.

PayPal (PYPL) — Target 3–5%

Product momentum is improving. Revenue growth accelerated from roughly 1% to just over 5% in the latest quarter. The stock trades near a low-teens forward P/E, and the share count is falling, so even mid-single-digit revenue growth can translate to better EPS. New partnerships and checkout upgrades create further upside if adoption is solid.

We want to see growth hold or improve in the next few quarters and take-rates stay stable. Key risks are share loss to Apple Pay and Shop Pay, a shift from branded to unbranded processing, pricing pressure, and weak e-commerce volumes.

Nike (NKE) — Target 3–5%

Nike remains a leading global brand but is in the middle of a reset. The share price is about 40% below its level five years ago. Inventories are cleaner, the mix between wholesale and direct is improving, and new product stories in running, basketball, and Jordan/Lifestyle aim to restore full-price selling. As promotions ease and freight and input costs normalize, gross margin should rebuild and cash flow should improve.

We are looking for sequential margin improvement, lower markdowns, faster inventory turns, stability in North America, and steady growth in China. Risks are fashion-cycle misses, stronger competition from Hoka and On, China volatility, and foreign-exchange swings.

Cheesecake Factory (CAKE) — Target 2–3%

Cheesecake Factory offers a steady value and dividend story with measured expansion. Growth comes from three banners, The Cheesecake Factory, North Italia, and Flower Child. Modest same-store growth and small improvements in four-wall margins can lift EPS. A rerating toward the company’s historical P/E would add further upside, and buybacks and the dividend provide support while new units open.

We will track the pace and returns of new openings, restaurant-level margins, and trends in labor and food costs. Risks are softer traffic in casual dining, higher input costs, and execution as newer concepts scale.

UiPath (PATH) — Target 1–2%

UiPath is expanding from basic software robots to a broader automation platform that includes AI assistants and analytics. If customers standardize on one vendor and adopt more modules, ARR and net-revenue retention can stay healthy while costs remain under control, supporting better margins and free cash flow. Large enterprise and public-sector wins are the main upside swing factors.

We are watching ARR growth, NRR, cloud adoption, and progress in operating margin and free cash flow. Risks include long sales cycles, price pressure from Microsoft and other platform bundles, implementation complexity for smaller customers, and currency effects.

Baidu (BIDU) — Target 1–2%

Baidu combines a resilient search advertising business with emerging AI drivers. As China's economy steadies, ad spending should normalize. The company is building an AI cloud around its ERNIE model and is running robotaxi services (Apollo Go) in several cities. These initiatives give Baidu additional ways to grow if adoption and policy support improve.

We want to see better ad trends, rising AI cloud revenue with improving margins, and clear progress in paid robotaxi rides and permits. Risks include policy changes, slower demand in China, competition from short-video platforms for ad budgets, and higher AI compute costs.

Honest Company (HNST) — Target 0–1%

Honest has shifted toward diapers, wipes, and skincare, which has lifted gross margin from the mid-20s to above 40%. The company has turned net income and EPS positive. With a market value of roughly $400M and more than $70M in cash, the balance sheet provides runway for the turnaround. If execution holds, a rerating toward $1–2B by 2030 is achievable.

We will watch margin trends, cash burn, guidance, and distribution wins or velocity gains. Risks are limited trading liquidity, heavy competition in baby and skincare, retailer concentration, and the challenge of scaling a small brand

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Part 5 – Consumer Focus Shift

We are adding a defensive sleeve to cushion drawdowns while keeping our long-term compounding engine intact. Half of new deployable cash will continue to fund our seven high-conviction names. The other half will rotate into high-quality staples exposure and a short-duration gilt to stabilize portfolio volatility. Within the defensive sleeve, we will target **~40–50% ETFs**, **~35–45% single stocks**, and **~10–20% UK 2-year Gilt**. We will scale this sleeve up when risk signals deteriorate and normalize it when conditions improve.

ETFs

1) XLP — Consumer Staples Select Sector SPDR

- **Role:** Core, large-cap U.S. staples exposure with high liquidity.
- **Why now:** XLP historically exhibits smaller peak-to-trough declines than the broad market and holds companies with durable pricing power and steady cash flows.
- **How we will enter:** We will build the position in three to four tranches over the next two weeks, favoring days when volatility spikes or breadth weakens.
- **Sizing:** Up to 10–12% of portfolio NAV within the sleeve.
- **What we will monitor:** Index-level earnings revisions, aggregate gross margin trends for household, beverages, and food, and relative strength versus the S&P 500.
- **Key risks:** Multiple compressions if risk appetite abruptly returns, and temporary margin pressure from input costs.

2) COPX — Global X Copper Miners UCITS ETF

- **Role:** Targeted exposure to global copper miners, adding cyclical upside and operating leverage to copper alongside our existing precious-metals sleeve.
- **Why now:** Copper's medium-term setup is supported by grid upgrades, data-center/AI power build-outs, and EV infrastructure, while new supply remains constrained by long project lead times and declining grades.
- **How we will enter:** We will ladder entries in alternate-day tranches over the next two weeks, prioritizing adds on copper price pullbacks or risk-off days to average cost.
- **Sizing:** Up to **5–8%** of portfolio NAV within the resources sleeve, reflecting higher volatility versus staples ETFs.
- **What we will monitor:** LME/COMEX copper trend and inventories, Chinese grid/industrial data, new project timelines/capex, unit-cost and AISC trends at top constituents, and USD moves.
- **Key risks:** Commodity price volatility, cost inflation at miners, project/execution risk, and macro demand shocks (especially China).

Stocks (3)

1) Unilever (ULVR / UL)

- **Role:** Global household, beauty, and foods company with brand depth and demand.
- **Why now:** Category diversification and pricing power support stable cash flows through cycles, while ongoing portfolio focus and efficiency initiatives aim to improve margins and consistency.
- **How we will enter:** Accumulate in two to three tranches on market down days or staples underperformance to maintain price discipline.
- **Sizing:** Target 3–4% of portfolio NAV (within the defensive sleeve limits).
- **What we will monitor:** Organic sales growth split (price vs. volume), gross-margin trajectory, cost-savings delivery, and performance in key emerging markets. Track working-capital discipline and cash conversion to dividends/buybacks.
- **Key risks:** FX translation (non-USD earnings), competitive promotions/private-label pressure in HPC and foods, and execution risk on portfolio simplification initiatives.

2) PepsiCo (PEP)

- **Role:** Balanced beverages and snacks exposure with global distribution.
- **Why now:** The dual category mix provides multiple levers for steady revenue growth and margin resilience across cycles.
- **How we will enter:** We will accumulate on weakness around earnings noise or short-term category rotation.
- **Sizing:** 3–4% of portfolio NAV.
- **What we will monitor:** Net revenue per case, elasticities in snacks, commodity hedging effectiveness, and working capital discipline.
- **Key risks:** Volume softness in specific geographies and sustained input-cost pressure.

3) Walmart (WMT)

- **Role:** Quasi-staples retailer with scale, everyday-value positioning, and strong grocery share.
- **Why now:** WMT tends to benefit from consumer trade-down and offers defensive traffic with improving omni-channel capabilities.
- **How we will enter:** We will add on general-market down days or when retail sentiment weakens, maintaining a measured pace.
- **Sizing:** 3–4% of portfolio NAV.
- **What we will monitor:** Grocery share trends, inventory turns, shrink management, and e-commerce profitability.
- **Key risks:** Wage and logistics cost inflation and competitive pricing pressure.

UK 2-Year Gilt (Ballast)

- **Role:** Low-volatility reserve that preserves optionality for redeployment while adding modest income with limited duration risk.
- **Why now:** A short-duration gilt can stabilize portfolio value during equity drawdowns and provides a simple, liquid parking place for dry powder.
- **How we will enter:** We will buy in two to three staggered clips, aligning adds with equity-volatility spikes.
- **Sizing:** 10–20% of the defensive sleeve, flexed with risk signals.
- **What we will monitor:** Front-end rate expectations, inflation prints, and gilt-market liquidity.
- **Key risks:** Mark-to-market sensitivity to rapid rate shifts and currency effects versus our base currency.

Execution and Risk Management

- **Phasing:** We will build all positions in three to four tranches over two weeks to reduce timing risk.
- **Risk controls:** We will avoid tight mechanical stops on ETFs and manage the sleeve at the allocation level using volatility, breadth, and credit-spread signals.
- **Adds/Trims:** We will add when volatility rises, breadth deteriorates, or credit spreads widen, and we will trim when breadth recovers and volatility normalizes.
- **Liquidity discipline:** We will prioritize liquid lines to maintain flexibility and minimize transaction costs.

Outcome: This consumer-focused shift is designed to reduce drawdowns, stabilize cash-flow exposure, and preserve the ability to rotate back toward offense quickly as conditions improve.

Part 6 – Hedging

Purpose

We added a small tactical hedge to reduce portfolio beta during early-October volatility while keeping our core long book intact.

- **Instruments:**
  - **T-Rex 2× Inverse Tesla Daily Target ETF** (daily reset, seeks -2× the **daily** return of Tesla).
  - **T-Rex 2× Inverse Palantir Daily Target ETF** (daily reset, seeks -2× the **daily** return of Palantir).
- **Rationale:**
  - These positions provide targeted downside exposure to two high-beta names that tend to amplify swings in risk sentiment. Using small, defined-risk ETFs avoids stock borrow constraints and allows us to hedge tactically without selling core longs.
- **Sizing:**
  - Combined hedge exposure set at ~0.5–1.5% of NAV at cost, sized to blunt drawdowns rather than to speculate.We will keep each single hedge ≤2% of NAV and avoid averaging up.
- **How these products behave:**
  - Both funds reset daily and aim for -2× the day's move in the underlying. Over multi-day periods, returns will not equal -2× due to compounding/volatility drag. They are intended for short holding windows and require active monitoring.
- **Risk management:**
  - **Stops/Exits:** We will reduce or close if (i) breadth improves materially, (ii) volatility normalizes, or (iii) either underlying reclaims and holds key trend levels that invalidate the hedge thesis.
  - **Cap on leverage:** We will not layer additional leveraged inverse exposure while these positions are active.
- **Monitoring:**
  - Market internals (breadth above 50-DMA, credit spreads, rates volatility).
    Underlying name-specific catalysts (product events, guidance, large contract announcements).
  - Tracking and premium/discount versus NAV on the ETFs

Outcome

The goal of these hedges is drawdown dampening, not directional bets. They let us keep our long-term positions intact while we navigate near-term uncertainty, and they will be scaled down as conditions improve.

Part 7 – Letter From the Manager

October marks a deliberate shift from celebrating gains to protecting optionality. Our priority is to preserve and deploy a growing cash balance with discipline, not to chase strength or react to headlines. We are buyers only when price and conditions meet our standards. To that end, we continue to dollar-cost average into seven high-conviction names across four weekly tranches, releasing each tranche only if our macro checks are supportive. Volatility is not a call to action; it is a source of future entries.

We will avoid stress buying or selling. Cash is a strategic asset, giving us the freedom to act on pullbacks rather than predict them. Buy bands are set in advance; if markets weaken, we add methodically; if they rally beyond our bands, we wait. The same restraint applies to risk: we maintain position and sector limits, and we adjust exposures through thesis reviews—not emotion. In short, October is about patience, price discipline, and emotional detachment: let the process set the pace, let quality compound, and let cash do its job until the odds improve.

We are grateful to our readers and investors for following Drumoak's journey and for the continued engagement that helps sharpen our approach. As we move into year-end, we look forward to sharing further updates on strategy execution, market insights, and opportunities shaping the next stage of growth. For those interested in ongoing insights, we invite you to visit our website or follow us on LinkedIn. Feedback is always welcome as we refine both our reporting and investment processes.

– Angus Logan