The Standfast Report

COMMENTARY FOR INTELLIGENT INVESTORS
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Dear Reader, Wilkesboro, NC, November 13, 2023

It is important to keep general savings cash accessible regardless of return, but it may also be beneficial to take advantage of historically low bond prices (and high yields) in retirement accounts.

I have generally continued to roll my 4-week T-Bills because their rates have remained relatively attractive at about 5.3% in recent weeks.[1] I have not locked in similar high rates with longer duration on my T-Bills because I use T-Bills as a cash equivalent with a much higher rate of return than a bank account and I do not consider them a fixed income investment per se. I want my cash to be quickly accessible and free of interest rate risk.[2]

With bond prices down and yields up significantly relative to the past 10 years or so it is not a bad time to think about locking in safe fixed income with long duration. I recently shifted a significant portion of my 401k (maybe 15% or so) from a total U.S. stock market index fund into a U.S. corporate bond fund and a U.S. Treasury securities fund.[3]

Advance Auto Parts, Inc. (AAP) may do fine relative to its competitors in the long term (or even in the short term) but I realized I was making a speculative 1-2 year bet and found myself uncomfortable owning the stock. It

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[1] About 5.3%, CUSIP 912797HU4 to be issued November 14. See: https://treasurydirect.gov/auctions/announcements-data-results/
[2] Re interest rate risk, see: https://www.investopedia.com/terms/i/interestraterisk.asp
[3] *Target date funds* maintain a stock/bond balance for you and gradually shift assets into bonds or bond-like assets as you approach retirement. Currently I do not use such funds because I like having more control over my investments.

was supposed to be a clever 1-2 year trade (and may yet be) but I realized it is not the sort of company that I want to own and so I sold it with a 20% loss. The existence of an exit strategy before the investment occurs is a potential sign of speculation.

Cal-Maine Foods, Inc. (CALM)'s main business is selling fresh shell eggs to distributors and retailers. The company came through one of my screeners essentially because of its very strong financial position (ratio of total liabilities to total assets 0.15, current ratio 8.42, quick ratio of 6.09),[4] relatively high profit margin over 20% and low P/E (ttm) of about 3.82. However, the most recent fiscal year produced unusually high net income of $758M whereas the average net income for the prior 10 years was $89.5M.[5]

CALM seems like an important, profitable, financially strong, relatively straightforward business with a management that seems to do a good job of tracking and furnishing key metrics (similar to RGR in that way). I think CALM will be around for a long time, but the price of $3.425B for earnings of $89.5M (P/E of 27) seems too high at this time.

This is a good reminder to look closely at how recent earnings compare to historical earnings when you see a company trading with a low P/E.

QUALCOMM Incorporated (QCOM) has been quite profitable for 13 of the past 14 years[6] and is arguably fundamentally financially stronger than Advanced Micro Devices, Inc. (AMD) and Intel Corporation (INTC) in terms of their ability to pay current liabilities. QCOM is significantly more profitable than AMD and almost as profitable as INTC (more profitable in ttm). NVIDIA Corporation (NVDA) and Texas Instruments Incorporated (TXN) are fundamentally financially stronger and more profitable than QCOM, AMD or INTC, with the exception that AMD has the lowest ratio of liabilities to assets of all five.

But price relative to earnings matters. Recently I heard someone say "There are no bad investments, just bad prices." Depending on what you like in a business, QCOM and TXN may be the only two of the five that are priced anywhere close to reasonable. This view is based on a high-level fundamental financial comparison.

I don't particularly understand the business of semiconductors, and I don't know how to determine which company has the greatest advantage. The risks, particularly the risk of customers vertically integrating, are too difficult for me to navigate and predict. If I was forced to buy into the industry then I would be inclined to pick the best 3-5 companies rather than just 1. Another angle could be to choose industry participants based on descriptive factors such as where their manufacturing facilities are, where

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[4] See balance sheet at 08/31/2023: https://macrotrends.net/stocks/charts/CALM/cal-maine-foods/balance-sheet?freq=Q
[5] See: https://macrotrends.net/stocks/charts/CALM/cal-maine-foods/net-income
[6] See: https://macrotrends.net/stocks/charts/QCOM/qualcomm/net-income

their materials come from, etc., but I haven't gone that deep on semiconductors.

Ticker	L/A	Current Ratio	Quick Ratio	P/S	P/E	Revenue TTM	Revenue (AvgL10Y)	Net Profit Margin TTM	Net Profit Margin (AvgL10Y)[7]
NVDA	0.45	2.79	2.23	36.75	116.32	$32.68B	$12.36B	31.59%	25.71%
INTC	0.44	1.53	0.97	3.05	-	$52.86B	$64.88B	-3.11%	22.12%
AMD	0.19	2.19	1.42	8.53	907.09	$22.11B	$8.73B	0.94%	6.84%
QCOM	0.58	2.33	1.51	3.86	19.12	$35.82B	$28.15B	20.19%	19.61%
TXN	0.48	5.72	4.24	7.31	18.73	$18.11B	$14.95B	39.06%	31.87

[7] L/A = total liabilities divided by total assets. AvgL10Y = average of last 10 years.