under the radar
REPORT

Issue 646
10 April 2025

PORTFOLIO UPDATE

Portfolio: How to respond to market tariff mayhem

We increased our cash reserves late last year (see Issue 446) and we are in the position to take advantage of big opportunities, once individual stock fundamentals have been digested. As an investor you want to be making decisions in your own time, not being held hostage to events, which is the case if you invest solely in index-hugging ETFs. Know the stock fundamentals and stick to them! We show you how.

MARKET COMMENT: Know the stock fundamentals and stick to them

US market moves on Monday morning were astonishing, bouncing around like a hyperactive grasshopper. This phase of news driven selling could be over, but there will be aftershocks for weeks or months.

Eventually, the market will fully price in all the new uncertainties, likely through an increase in the equity risk premium, as Richard observed in his insightful video over the weekend.

It has never been more important to understand what your companies do, and how they make money. If you are invested in index funds, you are waiting for other investors to decide minute-by-minute what value they are putting on your stock market package deal.

As long-term investors in individual stocks, we look at what risks affect our specific investments, and what growth factors are affected directly or indirectly by the tariffs. Then we can make a judgment about the market price for that risk and those growth prospects.

Value investmenting means that we can be more generous with our growth scenario analysis than we have to be for more highly strung growth investments that have to win, or else.

At the time of writing, it is still unclear how much of the US tariffs will stick, where the final level may be, and other crucial factors which will affect the long-term valuation of companies.

Corporate responses such as pricing or sourcing remain a long way from being analysable. The US stock market was moving tens of points each second as it attempted to find a firm footing in the analysis quicksand.

We observed over many months the high valuations of some stocks, particularly those dominant in popular market indices.

The scale of the losses at the top end of town on Monday bore this out, both CBA and BHP fell 6% on the day, some of the largest losses in a market which lost just over 4%.

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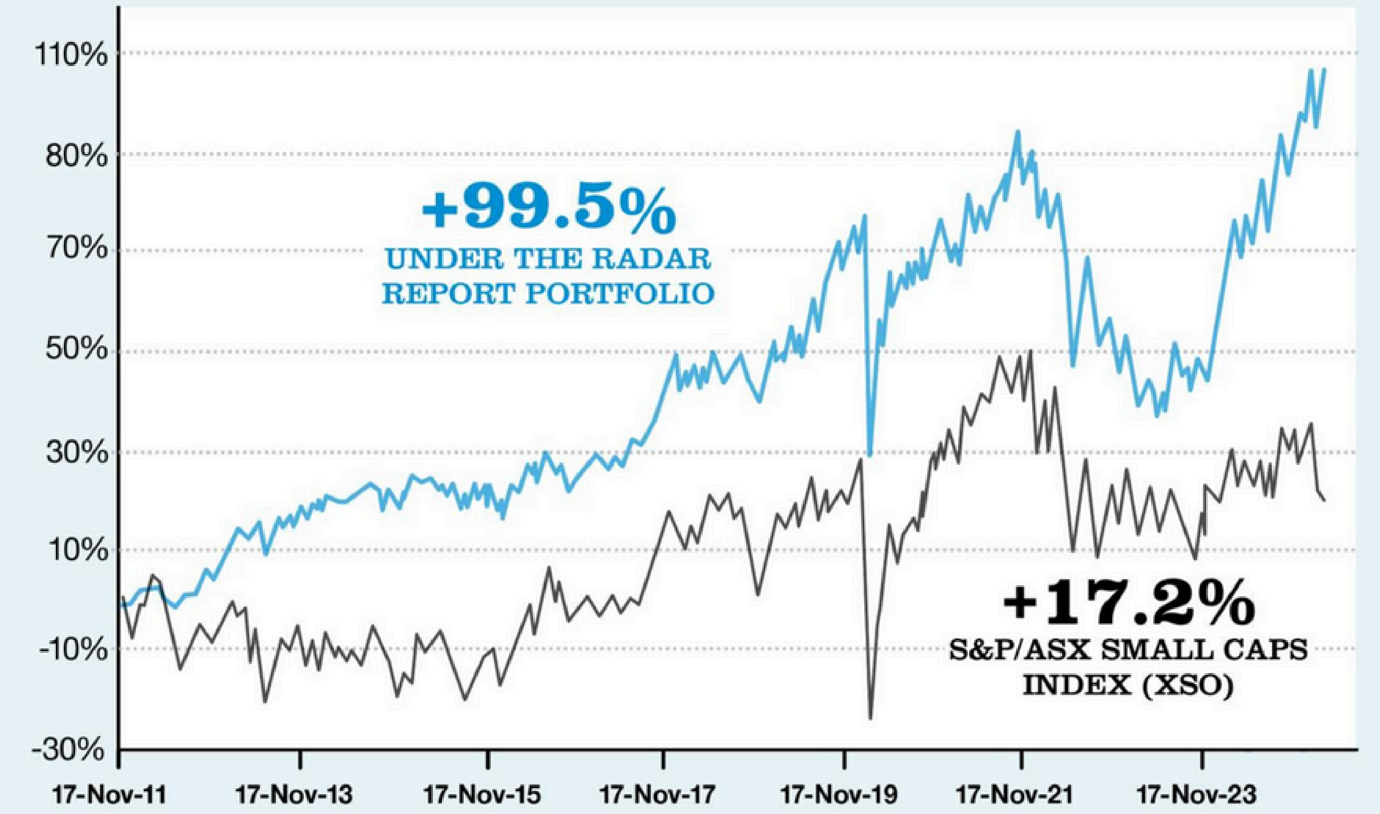
PORTFOLIO UPDATE CONT.

PORTFOLIO PERFORMANCE: CONSISTENCY IS THE KEY



Year-to-date, the portfolio is up 1.1%, about 10% ahead of the indices, with 26% cash, well placed to pick up bargains in a troubled market. The Under the Radar Report portfolio has held steady demonstrating defensive qualities which held back returns in stronger markets, but have protected the portfolio capital in downturns.

SOURCE: Trading Economics

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PORTFOLIO UPDATE CONT.

% pa to 8 April 2025	1 year	2 years
Under the Radar Small Cap Portfolio	**+15.1**	**+18.4**
S&P ASX All Ordinaries (XAO)	**-4.7**	**+1.7**
S&P ASX Small Ordinaries (XSO)	**-8.7**	**-0.5**

In our previous update at the end of last year (Issue 446) we converted 9% of our portfolio into cash. One of the lessons from this particular news cycle is that making decisions in your own time is easier than reacting to events.

This is true of individual holdings as well as at the portfolio level. We will react fast to events if we see the need, as we did in the middle of Covid, selling some key holdings early enough to make a difference.

This time, we raised cash in December for portfolio rationalisation and valuation reasons, not a bad call with hindsight, even though the sale of part of our holdings in the **GOLD ETF** and **Evolution Mining (EVN)** was premature. The new stocks **Enero (EGG)** and **OFX Group (OFX)** have fallen along with everything else. Despite some mistakes, the portfolio is still well ahead of the market!

Stock Specifics

Fundamental opportunities will arise from tariff imposts, but the dust needs to settle.

Many smaller companies are more domestically orientated by definition, barely exposed to international trade.

In this portfolio, these include **ARN Media (A1N)**, **Alliance Aviation (AQZ)**, **Southern Cross Electrical (SXE)** and **Superloop (SLC)**. In these cases, the impact of the tariffs will be a second or third-order effect, the result of a further downturn in the domestic economy resulting from a slowdown in international trade.

There are other companies which are much more directly exposed, manufacturing companies like shade cloth manufacturer **Gale Pacific (GAP)** and medical device manufacturer **Medical Developments (MVP)** whose products are manufactured in tariff-affected countries (China and Australia respectively) and delivered and sold in the US.

Encapsulation specialist (turning fish oil into power) **Clover (CLV)** may also qualify. These stocks will suffer the first-order effects of the tariffs but have already suffered declines, and the stock prices were not dramatically affected by last week's news. But no manufacturer can do very much about the impact of tariffs in the short to medium term, since setting up production in the US will be extremely costly.

Other stocks face more nuanced impacts. Almond producer **Select Harvests (SHV)** could be impacted positively by retaliatory tariffs raising the price of US almonds, which represent 80% of global production. But then the US might do preferential trade deals with large buying countries in Asia, cutting Australia out of the loop.

Ship builder **Austal (ASB)** had been our largest position, but we sold 30% of it in February, recognising that there was headline risk. After a capital raise at $3.80 and much volatility, ASB was rock solid through last week's turmoil, with local manufacturing in Uthe SA underpinning its evergreen US defence support appeal in current markets.

PORTFOLIO UPDATE CONT.

Stocks that provide services are not directly affected but can be affected by the second and third-order impacts on industry sentiment and economic weakness.

Some of these include those that have experienced weakness for other reasons, including gaming group **PlaySide Studios (PLY)** trouble-shooting IT provider **Integrated Research (IRI)**, and billing software specialist **Hansen Technologies (HSN)**.

New Transactions

We accepted the $12 buyback from **Pacific Group (PAC)**, which brought the total cash above $50k.

Buying:

Airtasker (ART) 5000 up to $0.30
Alliance Aviation (AQZ) 1000 up to $2.60,
Amplitude Energy (AEL) 5000.
Enero (EGG) 2500 up to $0.70
Hansen Tech (HSN) 500 up to $5.

We are interested in topping up our position in **Omni Bridgeway (OBL)**, but we will first update our coverage, and it already had a run.

Selling:
DigitalX (DCC)

All transactions will be executed at Friday's close. This should cost a total of about $8k, about 20% of the cash on hand.

The Idle Speculator holds ART, ASB, IRI & GOLD in his SMSF.

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