



Investor Letters

# Q3 2023

Oct 18 2023 By The Nightview Team

**Get Our Latest Thinking  
Straight To Your Inbox.**

Email

Subscribe

Dear Partners,

See below for our Q3 Market Update as well as a brief Q&A with our founder/CIO Arne Alsin.

## Long Only Equity Growth

	<u>Month</u>	<u>Quarter</u>	<u>YTD</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5Year</u>	<u>Inception</u>
<b>Strategy</b>	-6.37%	-7.23%	61.49%	-12.01%	-2.41%	20.58%	25.33%
<b>S&amp;P 500 TR</b>	-4.77%	-3.28%	13.06%	21.61%	10.15%	9.92%	12.89%

Past performance is not a guarantee or indicator of future results. Please [see here](#) for composite presentations for additional information and disclosures.

Despite the positive performance this year, we're still in a highly volatile, emotional, and reactionary market. Rising interest rates, lingering inflation, volatility across energy markets, global conflict, and many other factors are making today's market a challenging landscape to navigate. In these types of environments, it's normal to feel a degree of uncertainty—or even pessimism—about the future.

And yet, in the big picture, we're not particularly concerned about any of these issues materially impacting the staying power—or long-term prospects—of the positions we hold. These cycles are all par for the course. In 2020 and 2021, we saw a great deal of market and investor exuberance. Across 2022 2023, we have seen a great deal of negativity and pessimism. In our experience, the truth is always somewhere in between. Our focus now is entirely on the growth and stability of the portfolio over the



business is immune from a challenging economic landscape or able to put up perfectly linear growth rates that extend forever.

On the positive side, for stock pickers like us, these Darwinian cycles also present opportunity. That's because they tend to expose inferior businesses—while strengthening a select few that can innovate and adapt to challenging times. In previous letters we've talked about our belief in the concept of creative destruction. We're seeing it play out in today's market.

Creative destruction is good for some companies—a death knell for others. In times of economic turbulence, many businesses will deteriorate. Others will be strengthened and come out the other side with more resilience.

If you are a stock picker or investor with a longer-term perspective, we believe these pockets of uncertainty should be welcome. As uncertainty increases, stock prices tend to fall. Very often, we believe prices tend to fall faster than the reality on the ground. Pessimism is contagious. This presents opportunity.

Just think back to the financial crisis of '08. It was perhaps the most difficult market we have ever seen, but as the market eventually bottomed out, immense opportunities emerged, often when things looked bleakest. In a bull market—such as the one we experienced for most of the last decade—exciting opportunities became fewer and far between.

Very often, it takes a “reset” to bring new and compelling opportunities to the forefront, and we believe we're in one of these periods now. While it can be painful in the short-term, we believe these “resets” are required to set the stage for the next multi-year period of growth. It's part of the reason we're so excited about the future.

When we consider a potential investment, we do so with a 3-year lens. We believe this simple approach gives us a slight advantage relative to many of our peers, who tend to invest on a 3- to-6-month horizon. Much of Wall Street is structurally designed to focus on near-term profit expectations, which, in our view, has historically created significant opportunities for investors with a longer perspective. Quarterly earnings, after all, are just a tiny piece of the long-term puzzle for each company, and can be noisy, distracting, or even misleading if viewed in isolation.

The fact is, many of our portfolio businesses—and businesses on our watch lists—are now trading at considerably depressed prices from their highs. And yet, as we approach each holding and separate the business from the stock price, we often view their fundamental values as *increasing* each quarter on a relatively stable basis.

For instance, we can point to a portfolio business like Google (GOOGL), which is still down from 2021 highs. Earlier this year, GOOGL traded sharply lower on fears that its business would be disintermediated by ChatGPT. Investors were also particularly concerned about a slowdown in digital ad spend that would *tively* impact Google's topline growth. We viewed many of these fears as somewhat irrational, if not short-sighted concerns. We saw this again recently, in Q3 2023, when Google traded down nearly 10%



rebounding nicely, and we believe cloud revenue growth will drive long-term margins to the upside.

Tesla, too, is impacted by rising interest rates, which reduces the affordability of its products. Consequently, Tesla has lowered car prices faster than its ability to reduce the cost of manufacturing, which has resulted in lowered margins, smaller quarterly profits, and a depressed share price. As Elon Musk said on the latest Q3 earnings call: “Even a great ship in a storm has challenges.” But the key is to be on the right ship that can get through the storm intact without material impairment. (We certainly don’t think it is a good idea to try jumping from ship to ship during a storm, by the way.)

On the surface, Tesla’s Q3 earnings report gave little to get excited about in the near-term: The company is facing a steep decline in automotive gross margins, softening demand in a high- interest-rate environment, shrinking operating margins, and production challenges on the Cybertruck that have reset short-term profit expectations. On the positive side, Tesla’s energy business is revealing consistent and impressive growth—even if from a relatively small base. Energy storage deployed grew 90% YoY to over \$1.5 billion in this quarter and now is the highest margin segment of the business. It was a mixed quarter, though nothing particularly surprising to us.

While our mid-to-long-term outlook remains unchanged, many investors will naturally focus on the near-term margin compression and the implications of said compression on the company’s bottom line. In addition to the challenges of the Cybertruck launch, it’s also worth noting that Tesla was also attempting to launch a new model (the “Highland” Model 3) without cannibalizing domestic U.S. sales, which led to material factory downtime in Q3. Those deliveries are now starting.

Net-net, these factors have put short-term pressure on the trading value of the equity as the company continues to build growth and value behind the scenes. It’s also worth noting that the market’s reaction to these short-term pressures is ultimately difficult for anyone to predict — even when information has been telegraphed beforehand. With the strong quarter for energy, continued growth in auto deliveries, and the continued march of FSD and AI improvements, there are many generationally-exciting opportunities ahead, even if the next 6-12 months are somewhat unpredictable.

That said, it’s fair to say that when we analyzed Tesla in 2019, 2020, and 2021, we expected the company would likely have been a more mature, less volatile company, than they are today. For instance, we expected the company might have developed a more robust marketing program to help educate and generate awareness beyond the early adoption phase—and ironed out problems related to new vehicle production earlier on in development. Elon Musk’s purchase of Twitter, too, has been more than just a headache—it’s been a migraine for us as investors. This is the nature of investing—and why it’s so challenging. We try to make the best decisions today given the information we have available to us, knowing that the future is impossible to fully predict, and things won’t always go as planned. But it is important to note that none of these are structural issues that can’t be rectified, and that is a key part of our thought process when looking at a potential investment — things can and will go wrong, but we want to avoid companies that could run into issues that could permanently impair their long-term prospects.



We have continuously stated our view that the best products ultimately win out, and we strongly believe Tesla is vastly superior to its competition in almost every way. No other company is close to being able to produce an EV profitably at scale, and there have been several announcements recently from legacy auto companies materially scaling back EV plans. Tesla has laid the foundation to be an integral part of the entire electric transportation value chain. More and more companies are choosing to use their charging standard, too. In a sign of what's to come, BP just announced they'd be buying Tesla charging stations to install at their gas stations. That's very exciting.

Another core holding, Amazon, has seen a general slowdown across its profit-heavy cloud services segment, which has led to decreased near-term profits. This is not surprising to us. Many of Amazon's corporate customers have reduced spending in the cloud as they take stock of the economic environment, and AWS is also dealing with the law of large numbers. As topline growth slows, investors tend to reduce the multiple they are willing to pay, and stock prices tend to fall. Amazon, too, is down almost 30% from its highs.

And yet, our view of Amazon's value continues to rise. We view the slowdown in cloud growth as both somewhat expected—as the business slightly matures, we expect the base rates to slow—but also likely somewhat temporary in nature. We also believe that the market for AI will act as a general tailwind for growth in the cloud services segment for years to come. Some other segments are normalizing from a challenging period during the pandemic. For instance, Amazon's retail business faced increased labor and energy costs for the last couple of years. But we're beginning to see a reversion to normalized retail margins, which we think could further boost the stock price.

But perhaps even more importantly, we believe Amazon is becoming a far more diversified conglomerate than the market gives it credit for. In particular, we have been studying Amazon's other "side bets"—such as its advertising division—which are blossoming into enormous opportunities for margin expansion. This year, Amazon Advertising is on pace to see more than \$40 billion in advertising revenue with even better margins than AWS and growing at healthy double-digits from an already formidable base. In Q3, Amazon beat expectation—in part due to its growing advertising business.

As always, we continue to view ourselves as focused, patient investors.

Much of the uncertainty about the current environment is normal. But for longer-term oriented investors, uncertainty should be viewed as a mechanism to create opportunity. We continue to be confident in the long-term nature of our holding's prospects—and our ability to find value and compound for many more years to come.

## **Business updates**

See below for a brief Q&A we conducted with Arne to talk about some of these changes.

**have you changed firm name?**



But as the business has grown, we have brought on several new employees and now evolving further with the ETF, we ultimately decided we wanted a new name that better represented what we do—and who we are. I love the name Nightview Capital because it speaks to my own process and how we operate as a firm. I'm a night owl who does his best work at night. I've also always considered myself the opposite of a day-trader.

### Anything else?

I know I'm a broken record, but I'm excited about this decade. There are so many fundamental changes happening in the world, and all this change creates a lot of opportunity. Even in a tough and uncertain investing environment, I'm excited about the new opportunities that are being presented, in addition to ones that may have not made sense in the past from a valuation standpoint. We're in deep researching and analyzing several companies we believe could be very compelling and will have more updates in the next letter.

I love what I do, and I'll be doing it for as long as I can keep reading a balance sheet. I'm always working on some new positions and tweaks to the portfolio process. I love the competition. If you follow the fund closely, you'll see we also have several new stocks in the portfolio with more to come. To me, the market is the greatest game ever invented. I'm just having fun playing it.

\*\*\*

As always, we thank you for your continued trust. Please don't hesitate to reach out if you have any questions or would simply like to catch up. We hope you all enjoy the upcoming holiday season.

Thank you,  
The Nightview Capital Team

---

### \*\*Disclosures

This has been prepared for information purposes only. This information is confidential and for the use of the intended recipients only. It may not be reproduced, redistributed, or copied in whole or in part for any purpose without the prior written consent of Nightview Capital. The opinions expressed herein are those of Nightview Capital and are subject to change without notice. The opinions referenced are as of the date of publication, may be modified due to changes in the market or economic conditions, and may not necessarily come to pass. Forward looking statements cannot be guaranteed. This is not an offer to sell, or a solicitation of an offer to purchase any fund managed by Nightview Capital. This is not a recommendation to buy, sell, or hold any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will be profitable, or that the investment recommendations or decisions Nightview Capital makes in the future will be profitable or equal the performance of the securities discussed herein. There is no assurance that any securities, sectors or industries discussed herein will be included in or excluded from an account's portfolio. Nightview Capital reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. Recommendations made in the last 12 months are available upon request. Past performance is not indicative of future results. Returns are presented net of investment advisory fees and include the reinvestment of all income. The S&P 500 Total Return is a market-value-weighted index that measures total return, including price and dividends, of 500 leading companies in leading industries in the U.S. economy. The volatility (beta) of the accounts may be greater or less than benchmarks. It is not possible to invest directly in this index. Nightview Capital, LLC (Nightview Capital) is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or performance. More information about Nightview Capital including our investment strategies and objectives can be found in our ADV Part 2, which is available upon request. WRC-22-02

[↶ Previous](#)[Next ↷](#)

## Related Content

### **Q1 2025 Investor Letter: The Rise of Smart Machines**

---

Investor Letters

Apr 17 2025

April 2025 Dear Investors, As we enter the second quarter of 2025, the investment landscape remains shaped by uncertainty — from shifting trade policies and elevated tariffs to persistent geopolitical...

[\*\*Read more ↷\*\*](#)

### **2024 Annual Letter: Investing Through the Next Industrial Revolution**

---

Investor Letters

Jan 16 2025

In this letter, we explore five transformative trends we're tracking in 2025 and beyond.

[\*\*Read more ↷\*\*](#)



© 2024 Nightview Capital LLC.

[Contact Us](#)

[Terms of Use](#)

[Privacy Disclosures and Cookie Notice](#)



Sign Up For

THE NIGHT CRAWLER

Email

Subscribe

