KONDRACKI ADVISORY
INVESTMENT MANAGEMENT
Investing for value, prudent growth and peace of mind

July 3, 2024

Quarterly Commentary and Opinion

Dear Clients and Friends of Kondracki Advisory,

The recent addition of **Tom Terraccino, CFA** has significantly enhanced our firm's capabilities in portfolio management, equity research, and client service. We are seeing a very positive impact on our firm and our investment portfolios. **We believe the future is bright for our model portfolios: Value and Prudent Growth and Prudent Growth. We can be proud of all the companies in which we are invested.** Our world is a better place because they are in it.

Our year-to-date **2024 composite total return** through 6/30/2024 is **4.77%**. Our **equity position**, which is **53%** of the total portfolio, achieved a return of **7.51%,** and our **Treasury Bills** position of **47%**, generated **a YTD return of 2.6%**. Total returns on the **100% equities S&P 500 Index** and the **Dow Jones Industrial Average** were **15.23%** and **4.70%**, respectively.

Our equity positions are performing well this year, and our **cash and U.S. Treasuries positions are paying us meaningful interest income.** We have had a considerable number of **standout performers**.

Walmart shares have increased nearly 31% so far this year as their sales and profit growth in a significantly higher consumer prices environment has made abundantly clear their value proposition for existing and new customers across the entire socioeconomic spectrum, with **significantly increased sales from higher income consumers** being highlighted in the most recent quarterly earnings report. Walmart sales are growing in-store and online. They continue to gain market share in every category they sell in, including e-commerce. As the **world's largest retailer and grocer**, with nearly **$700 Billion** in annual sales, this is important for Walmart and our country. **Walmart is the U.S. and world's largest private employer with 2.2 million** employees, and their direct and positive contribution to our economy and communities is large, broad-based and diversified.

Shares **of GE Aerospace, Broadcom, Costco, Walmart, McKesson, Shift4 Payments, Wells Fargo, GE Vernova, Microsoft, FedEx, Bank of America, JP Morgan, Goldman Sachs, TJX, Cummins, ExxonMobil, Toyota Motor Corp., Texas Instruments** and **Procter & Gamble** are up **63%, 47%, 32%, 31%, 27%, 25%, 22%, 20%, 20%, 20%, 20%, 20%, 19%, 18%, 18%, 17%, 17%, 16% and 14%,** respectively. All our portfolio companies provide very significant and quantifiable benefits to their customers, employees, and our economy, positively impacting so many lives.

Our **71** stocks have, **in aggregate**, modestly underperformed the S&P 500 Index during the first half of the year - but have notably outperformed the DJIA. This is best explained by the **unprecedented stock market concentration** in the S&P 500 and DJIA and the stock price outperformance of just a few of these companies. For example, we have never owned shares of Nvidia, Facebook or Google, which currently represent nearly **14%** of the entire value of the **S&P 500** Index. Nvidia's stock performance alone is responsible for a very significant percentage **of the total stock market gains over the past 18 months** and when combined with the stock price returns on Facebook and Google, account for a considerable percentage **of total gains**. There are **major financial risks to these companies' continued outperformance**, along with a **moral dilemma** that is perhaps less obvious.

Case in point: Nvidia has achieved tremendous, and perhaps unsustainable, sales and profit growth over the past couple of years, as the largest cloud computing providers race to incorporate AI into their offerings, for better **and** for worse. The spending on AI chips designed and sold almost exclusively by Nvidia has been extreme, to say the least. Purchases from just **Google, Facebook, Amazon, Microsoft and Oracle** together represent nearly **50% of total Nvidia sales**. And **these five largest customers are all in the process of designing and using their own AI chips**, as they have done in the past with other CPU chips. **This competition represents a significant future risk to Nvidia sales, profits and margins**. Additionally, there is significant **geo-political risk** for Nvidia as relates to chip production and supply chain. **Nvidia does not manufacture the chips that they sell and is completely reliant on one foreign company for virtually all their production: Taiwan Semiconductor. The potential production risk due to a Chinese/Taiwanese conflict should not be underestimated.** To this point, it has been extremely profitable for Nvidia to **not** be a manufacturer, U.S. or otherwise. They have **29,000** global employees. The nearly most valuable (as measured by the stock market) company in the world has **130,000 fewer employees than Apple? 2.1 million fewer employees than Walmart? 200,000 less than Microsoft?** The point here is that Nvidia is presently considered by the stock market to be one of the two most valuable companies in the world and represents nearly **7%** of the entire value of the S&P 500 Index, **and** no technology hardware company in history has ever been able to generate such high sales growth, at such high profit margins, with so few employees and no U.S. manufacturing base, for very long **- or without attracting serious competition** from other manufactures or their own customers.

We have also excluded the **surveillance-based advertising businesses** of Facebook and Google from our portfolios over the years. With nearly **60% of total worldwide digital advertising** dollars going to just these two companies, they have very little competition, presently. Google alone has greater than **90% market share in "Paid Search."** I expect that this should, and will eventually change, with anti-trust enforcement, law changes, and the significant civil cases currently being deliberated. This could result in dramatic changes to the dominant ad-tech company business models, presenting major challenges to their sales and profit growth.

Our portfolios have performed exceptionally well over every measured time frame, especially on a risk-adjusted basis, since the inception of our firm. And we can be proud of **how** our portfolio returns have been achieved. Our companies are consistently and reliably growing sales, profits and market share, and are making important and positive contributions to the economy and society. **The future is bright for our portfolios and the companies in which we are invested.**

Sincerely,

Chris Kondracki
Principal, Chief Investment Officer, Portfolio Manager

Tom Terraccino, CFA
Portfolio Manager

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