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Dear Clients,

It is an honor to write you the 2022 Missions Services (MS) annual investor letter. It has been a tough year though. When I started managing MS and its predecessor of Qiao partnership, I knew there would be periods of poor performance – no one is immune to them. I also knew that the pandemic-induced speculative bubble would bust. It happened in 2022 and many of the investors suffered badly.

The long bull market since the 2008-09 financial crisis, except the short blips of the 2011 European debt crisis and the 2020 Covid crisis, ended in the end of 2021 in the case of NASDAQ and the beginning of 2022 in the case of S&P 500. It is hard, if not impossible, to predict the market cycles. Overall, MS has been able to strike the right balance even though it has its setbacks.

As in the previous years' letters, the table below reports MS' returns since its inception. MS' return in 2022 is a little better than the S&P 500's on balance, mainly because it has avoided the glamorous stocks of the 2020 and 2021. However, MS suffered in this down market as well, mainly because the unprecedented interest rate hike drove down asset price across the board. I certainly did not predict the Fed would increase the interest rate so quickly and by so much, and I therefore have made mistakes to catch some of the "falling knives" too early.

Missions Services After-Fee Returns vs S&P500

Return	MS ¹	S&P 500
2020 (since inception: July, 13 2020 - Dec. 31, 2020)	12.1% to 14.6%	9.6%
2021	-4.2% to 9.3%	26.9%
2022	-19.3 to -8.7%	-18.1%
Cumulative return ²	-20.5% to 14.4%	13.9%

Note: The return differs among clients mainly due to the difference in clients' inception date and clients' assets inflow and outflow. The 2022 negative return of -19.3% is of a client with inception in 2022Q1. The S&P 500 returns are of the market index, dividend included; since the fee of the S&P 500 funds is only a few percentage points, the S&P 500 funds return is a little lower than the S&P 500 as reported in the table, but not much a difference.

The S&P 500's cumulative return is 13.9% for the period since MS' inception, a much lower result than its recent past. This is no surprise because the consequences of the money printing, speculation and overall market valuation all manifested themselves in 2022, triggered by inflation and Fed's interest rate policy. In addition, the Russian's invasion of Ukraine has materially put downward pressure on the economy and the market.

¹ The MS returns are after the fees of either 1% of assets under management or 25% after 5% return.

² The MS cumulative return may not be comparable to the S&P 500's due to the different time frame. For example, the -20.5% of cumulative return is for a client who started on 2021Q2, a period where the S&P 500 cumulative return would be -15.3%; the 14.4% of cumulative return is for a client who started on the inception of MS and did not add funds since, a period where the S&P 500 cumulative return is 13.9% as reported in the table.



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An short history of bear market

Going back to the end of World War II, the U.S. stock market has experienced 13 bear markets, including the current one. That is about one bear market every six years. The average loss was -32.7% in the previous 12 bear markets, and the trough of the current one is -28%. It took the stock market an average of around 12 months to go from the peak of the market to the trough. It then took roughly 21 months on average to go from the trough back to the previous peak. See charts below:

The Longest Bear Markets Since WWII

S&P 500 Bear Markets in Excess of 2 Years Since 1945

Peak	Trough	% Decline	Peak-to-Trough (Months)	Breakeven From the Bottom (Months)	Bear Market Length (Months)
5/29/46	10/9/46	-26.6%	4	36	40
11/29/68	5/26/70	-36.1%	18	20	38
1/11/73	10/3/74	-48.2%	21	46	67
3/24/00	10/9/02	-49.1%	31	48	79
10/9/07	3/9/09	-56.8%	17	37	54
AVERAGES		-43.4%	18	37	55

TABLE: BEN CARLSON • SOURCE: [YCHARTS](#)

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The Shortest Bear Markets Since WWII

S&P 500 Bear Markets of Less Than 2 Years Since 1945

Peak ▼	Trough	% Decline	Peak-to-Trough (Months)	Breakeven From the Bottom (Months)	Bear Market Length (Months)
AVERAGES		-26.6%	8	8	16
8/25/87	12/4/87	-33.5%	3	17	20
7/15/57	10/22/57	-20.7%	3	10	13
6/15/48	6/13/49	-20.6%	12	6	18
2/9/66	10/7/66	-22.2%	8	6	14
2/19/20	3/23/20	-33.9%	1	6	7
12/12/61	6/26/62	-28.0%	6	11	17
11/28/80	8/12/82	-27.1%	20	3	23

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In this bear market, virtually all the pandemic highflyers dropped between 50% and 90% and even more in stock price. What have happened to Gamestop, AMC, Tesla, Carvana and even FANNG (Facebook, Apple, Netflix, Nvidia and Google)? We cannot blame the speculators as they aided the boom but also suffered the bust. I say the root is the boards of directors not doing their job and the executives losing focus. This opens the door to greed and stupidity to take control. This is nothing new -- ENRON and Drexel Burnham paved the way. History does not repeat, but it rhymes. Even the best managed companies were too optimistic about the economic perspective – Alphabet and Microsoft have just announced their cuts in labor force at the time of this writing, following such recent announcement of Amazon, Meta, Netflix and many others.

Periods such as the recent year(s) are the reason why I always strongly emphasize the investment timeframe and tolerance for large swings to MS' new investors. Over a long enough time period (did we just say every 6 years?), they will happen. As much as we all want to believe that we will act calmly and rationally in these inevitable periods of duress, there is nothing like a real-world experience that gives us the chance to prove it.

[An update on Alibaba](#)

I have discussed extensively on Alibaba in last year's letter – nothing has changed in that perspective. However, it is an understatement to say Alibaba's share price movement has been extraordinary since then, ranging from as low as the lower \$60s to the recently recovered level of the \$110s. There are a few signs and I am hopeful that the ultimate perfect storm in China and on Alibaba is in the past. MS still holds Alibaba and a few other Chinese stocks.

[The U.S. market](#)

MS' focus is investing in the U.S. market. The recent drawdown in stock price is actually good news for long-term investors. In fact, I am more comfortable in terms of the value of MS' holdings now than anytime of the last two years or so. I am so thankful that you are similar minded – as you and I have many years in the investment journey, this bear market and all future downturns should be looked at as an opportunity. As we are the net savers in the years ahead, we should be thankful for stock market crashes. They allow us to pick up stocks on sale at lower prices and higher dividend yields.

That said, I made mistakes to buy stocks (the falling knives) too early in the beginning of 2022 when the prices, in hindsight, were still high (I am agnostic in timing the market, hoping the good and bad timing will offset in the long run). However, I hope that my assessment of their business prospects is correct and I continue to be an admirer and a believer of the U.S. enterprises and system.

To date, people are worried about the U.S. recession, the raising interest rate, the inflation and so on. These factors are all important to the stock price. The problem is that, as I said before and am continue to believe so, they are not knowable. Remember people were worries about deflation less than two years ago? I use the short-term treasury rate as an example on how



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extraordinary things can change. As late as in June 2020, the rate was virtually at zero and U.S. businesses bought \$50B that month. Today, the rate is at 4%. That means the U.S. businesses can get \$2B more interest payment annually on the \$50B they buy today than they bought then. That is a huge incentive for people to move from stocks to bonds and no wonder stock and bond prices fell as a result. However, at each step during the process, who would have predicted the Fed had acted as it did (i.e., raising the rate by 4 folds in a little more than a year, the fastest rate increase in history)?! Who would be able to predict what the Fed would do today going forward, both in terms of the speed, duration and extent of raising rate?

Bear markets don't last forever, but that can be hard to remember while we're living through one. I cannot predict what the stock market will do tomorrow, next month or even next year, but I am confident that long-term investing in the U.S. businesses will work. During the process, patience is a virtue as it is often in short supply, especially in the bear market.

To end the letter in a higher note: both the S&P 500 and MS has recovered some ground in Jan 2023 so far. Let's hope the worst has passed and 2023 will be a wonderful year ahead for us all.

Again, I am truly appreciate your trust. You will have my best effort and attention.

Happy Chinese New Year!

Yours truly,

Zhaogang Qiao (Principal)

Zhaogang Qiao

01/19/2023