Pier Asset Management LLC
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Pier Asset Management

The Year Ahead

January 2022

A year ago, a personal advisor explained he was buying options in case the "madness" continued. Globalization of trade once rewarded businesses and consumers with workforce productivity and cost savings. Today it challenges the economy with myriad supply chain disruptions. The convergence of this dynamic with unprecedented monetary and fiscal policy has resulted in excessive valuations across the capital markets, with virtually no asset class untouched. Meanwhile, the "Great Resignation" is reshaping the labor market and geographically redistributing the population. I am not sure how those options played out, however, the "madness" has indeed continued.

Thankfully, other than a shared "FOMO" of asset valuation inflation, this madness has little impact on our day-to-day investment strategy at Pier. We are cautious with underlying LTV's on hard assets, such as autos or real estate. When valuations increase quickly, implied LTV's decrease. This can be misleading on existing portfolios and create a false sense of security. In response to this, we proactively lower recovery expectations on our portfolios to maintain a conservative viewpoint and we intend to stay that course.

With money easy to come by, a slew of new loan originators are forming. Common categories include vertical-specific lending (eg. loans for nurses), card products, Income Share Agreements ("ISA's"), Buy Now Pay Later ("BNPL"), and subscription finance (insurance lending model). The latter two interest me most. Some commentary:

- BNPL for services (eg. elective health, auto repair) come with large underlying business margins that allows for more attractive pricing than consumer goods.

- Subscription finance (eg. pay $5/mo for the right to borrow $250 when needed) is an attractive alternative to payday lending for both lender and borrower.

- Cards are complicated due to their revolving nature.

- ISA's have been challenged at the regulatory level, which will present headwinds.

- Alternatively, secondary loan portfolio purchases have been limited to liquidity seeking, but not downright distressed, sellers.

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While a contrarian view, we may see more monetary stimulus in 2022. It has proven easy to print money to solve problems and inflation has not caused any real issues yet. Lighter problems will be met with the swift monetary response.

For Pier, our 2021 ethos was to iterate. Growth has driven deal flow, which has forced human and software-based efficiency. Asana, Notion, Slack, and Zoom have entirely changed and improved the way we do business. So have our investment and operations analysts. But, the result of significant deal count has been the most valuable as we educate ourselves in every aspect of specialty finance. While exhausting, we shall continue to iterate through 2022 to gain experience. This means short duration investments with frequent turnover, but results in a nimble portfolio to ease navigation through the madness.

We look forward to the year ahead.

Conor Neu

P.S. Follow me on Twitter @conorneu for daily snippets similar to the content presented here.

P.P.S. Here are Pier's top 5 favorite books we read in 2021:

1. *Shantaram*, by Gregory David Roberts
2. *The Art of the Good Life*, by Rolf Dobelli
3. *The Peregrine*, by J.A. Baker
4. *Atomic Habits*, by James Clear
5. *The Dark Forest*, by Cixin Liu