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"ROCKET MAN"

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By Brahm Satov

I am often somewhat envious, but mostly deeply happy, for friends who still have their parents around to share quality time together. As some of you know, my father passed away in 1999 at just 57 years old. I think most who know me would agree that this had a profound impact on my life. On a beautiful evening last month, my family was enjoying a quiet night in our backyard, swimming, sitting by the firepit, and listening to music. One of my neighbors was outside playing with his son, and they decided to join us. Although I've known him for years, I never knew that his father had passed away at just 48, when my friend was only 16. His older brother had to step up and take on many of the responsibilities that would have been his dad's. It must have been an extraordinarily difficult time for his mother and the brothers. Moments like that remind me how important it is to try to see things from someone else's perspective. Perspective is also beneficial when it comes to investing. Recently, SpaceX dominated the news, and my phone started ringing off the hook with investors eager to buy in. I tried to see it from their point of view, the excitement was undeniable, but I simply could not bring myself to buy the stock. Let me tell you why. "Rocket Man," as many of you know, is the classic song written by Elton John and Bernie Taupin. And when it comes to SpaceX, I think it's going to be a long, long time before the fundamentals catch up to the hype.

SpaceX (NASDAQ: SPCX) went public on June 12, 2026, with an initial public offering (IPO) price of $135 per share, valuing the company at a staggering $1.77 trillion and raising $75 billion, making it the largest IPO in financial history. On its first day of trading on the Nasdaq, overwhelming investor demand pushed shares up to a closing price of $160.95, eventually peaking at an intraday high of $225.64 shortly thereafter. As I write this, the stock has settled around $115, down 15% from its IPO price and down almost 50% from its peak in June.

Many investors got swept up in the excitement. Some just wanted to trade the momentum, and in hindsight, buying at $135 and selling at $225 sounds wonderful, though timing that in real life is almost impossible. Among the flurry of calls I received was one from a gentleman in his 80s who was eager to get in on the action. When I asked the many callers, what SpaceX actually does, no one actually knew. I think it is important to realize that when you are buying a stock, you are buying a slice of a business.

For background, SpaceX operates across three distinct divisions:

1. Space Launch Services: The global leader in orbital launches, flying commercial payloads, Starlink satellites, and NASA astronauts via Falcon rockets and Starship.

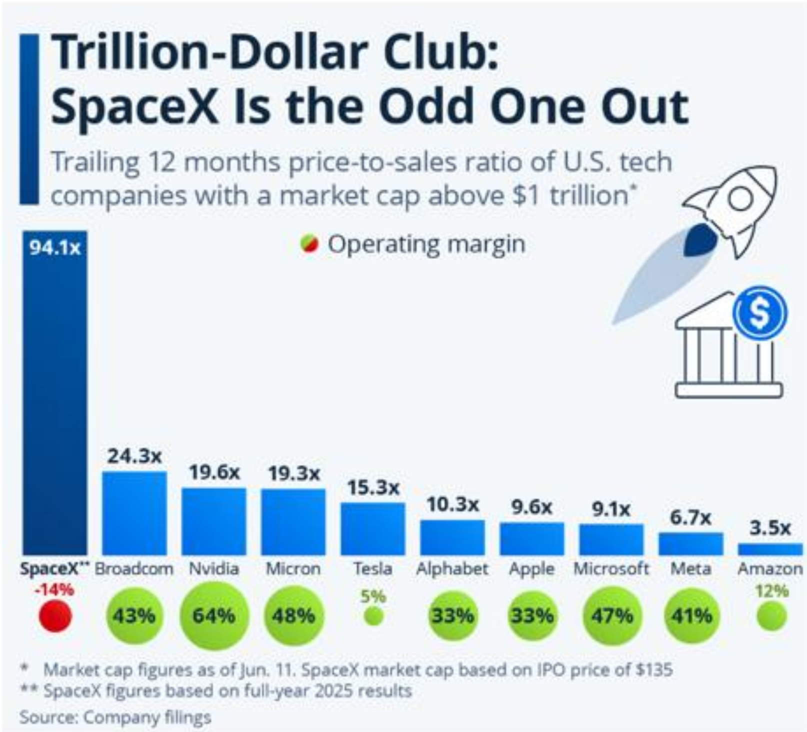
2. Connectivity (Starlink): A massive constellation of low-Earth orbit satellites delivering high-speed broadband globally to households, aircraft, and maritime vessels. The only division that was profitable.

3. Artificial Intelligence & Compute: A fast-growing unit providing massive data center compute capacity for tech partners, running AI models like Grok, and powering the X platform.

As one of my mentors used to say: "It is important to realize that the stock market is just that, a market of stocks." While market sentiment matters, every opportunity must be evaluated on its own distinct merits.

Despite all the technological achievements, here is why I did not purchase any SpaceX stock. 1) An egregious price-to-sales valuation. When you buy a stock, you are buying a share of a company's future cash flows. Because SpaceX is not currently profitable on a net basis, traditional Price-to-Earnings (P/E) ratios don't apply. Investors instead look at Price-to-Sales (P/S). Even after its 50% pullback from peak levels, SpaceX trades at an extraordinarily high multiple of its revenue. To say it was overvalued at the IPO, and remains rich today, is an understatement. One of my friends' dad's used to say, you make a good investment, when you buy at the right price. 2) Heavy consolidated losses and cash burn. While one division, Starlink is cash-flow positive and generating solid revenue, those profits are entirely absorbed by heavy capital expenditures elsewhere in the business. SpaceX's ambitious expansion into AI data centers and next-generation launch infrastructure requires billions in ongoing capital spending. On a consolidated basis, the business is cashflow negative and generates financial losses. 3) It is likely going to be a long, long time until the company starts to generate shareholder value. I generally prefer to buy companies that are increasing their value over time. Chasing initial public offerings based on headlines rather than balance sheets is a dangerous strategy. Retail investors who bought into the early euphoria were buying momentum, not earnings. SpaceX may one day change the world, but from an investment standpoint, it just did not make sense to me. SpaceX lost almost $5 billion last year and more than $4 billion in the first three months of 2026. At its IPO SpaceX valuation of $1.77 trillion was 95 times its 2025 revenue, a multiple that would only be justifiable if the company was growing like gangbusters or immensely profitable. Neither of which was the case. For most stocks they generally trade at 1-2x sales and for companies that are growing very quickly they may even trade at 5-25x sales. The valuation on SPCX was extreme and when we do get valuations such as this, often in periods of euphoria, they are usually followed by increased volatility and more difficult markets.

I still remember when my boys were young, the late nights and early mornings, the running around to get whatever was needed at all times of the day or night. I cannot even imagine what that would have been like as a single parent. It is completely natural to want to participate in groundbreaking history and in investments that look attractive. But I think it is important to go through the metrics so we can separate excitement from solid investment opportunities. For now, we will keep our feet on the ground and portfolios grounded in the fundamentals.



Source: Statistica

Thank you very much for taking the time to read our newsletter and feel free to send us any comments or suggestions.

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"What you do makes a difference, and you have to decide what kind of difference you want to make" - Jane Goodall

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