April 30, 2021

Fellow Investors:

For many years I have hesitated to write openly about investing. As most of you know, I consider myself an introvert and find the idea of sharing broadly with the world somewhat uncomfortable. Furthermore, there is no shortage of investment writing. Does the world really need another newsletter? Nevertheless, recent events have persuaded me that writing would be beneficial for the following reasons:

- First, and at the risk of sounding arrogant, I believe my experience analyzing investments has led to some unique and valuable insights that I feel some responsibility to share.
- Second, writing will make me better. The process of writing allows me to refine and improve my thoughts. A written record also allows others to hold me accountable, which encourages discipline.
- Third, over the years, several of you have requested that I produce something that can be shared with your friends as a means of introduction. I hope these letters will satisfy those requests. Growing the fund through your referrals is tremendously gratifying. Thank you for your support.

It is a difficult time to be an active manager. Good investment opportunities are not plentiful. Nevertheless, history has shown that good process and analytics will continue to uncover promising opportunities. But patience will be required.

Many feel the market is overvalued; it is at the highest levels since the late 1990s, and therefore, they assume, is sure to correct in the near future. I do not share this view. The mistake in this line of thinking is that it focuses on the wrong valuation metrics. The simple and most frequently cited metric, the price-to-earnings multiple, can be misleading. It fails to properly account for both the level of interest rates (as an alternative investment) and also for future changes in earnings. The proper way to look at an investment is by discounting future cash flows. In fact, this is the only true way to value a financial asset.

Using this approach, the S&P 500 is trading at fair levels today. Treasury rates are still low, despite recent increases. The implied incremental return over bonds for owning stocks is marginally above its 25-year average, meaning stocks are perhaps slightly cheap, as indicated in the graph at the bottom of this letter. Of course, all of this is not to say that the markets will continue to go up. Anything is possible in investing. But all else equal, I expect stocks will continue to climb along with earnings.

At its core, my investment approach can be considered contrarian and value oriented. In other words, I look for opportunities where I feel the market is mispricing an investment relative to its fundamental value. However, my method of estimating fundamental value is not one that most value-oriented investors would generally agree with. Most value investors rely primarily on historical financial statements and ratios, which are readily available, generally high quality thanks to rigorous reporting standards, and easy to communicate. However, their main flaw is that they are historical, or backward looking. In contrast, the markets and all true valuations are forward looking. My approach involves estimating a company's future earnings and cashflows and discounting these amounts back to their present value. By focusing on long-term fundamentals, I hope to capture many opportunities that others may miss. Of course, I cannot claim to spot all great market opportunities, but I hope and expect to find enough of them to generate substantial profits for you.

Recently I have had good success with a few financial and energy stocks. I have also found good opportunities in preferred stocks. Some of these are small and thinly traded but pay high yields. While generally the dominant technology stocks are overvalued, there are still some that I find attractive. I will hold and add to these positions going forward. I will also continue to watch for other more attractive opportunities wherever I can find them.

I intend to keep the portfolios concentrated in about 10 to 20 stocks for which I have high conviction. Portfolio concentration is key to investment performance. Although it may also increase portfolio volatility, I'm happy to accept this as a tradeoff for higher returns.

Going forward, I will be writing semi-regularly, at least once per quarter, and perhaps more often if I feel I have something of importance to say. I will also send out an annual letter to each account holder with a summary of their performance and balances. I'm available to discuss any of these items as needed.

Thank you for the trust you have given me in allowing me to manage a portion of your wealth. I look forward to many years together.

Regards,
Todd Niemann, CFA