April 15, 2024

Fellow Investors:

Three Years

This quarter marks three years since I began writing these letters. I started writing and investing for others to provide my friends and family with what I believe to be better investment management than they could achieve otherwise—from someone they trust. Writing these letters has also been beneficial for me. I enjoy the process and discipline required to express myself, and I also enjoy the many interactions that these letters garner. Thank you for reading. Thank you for sharing and engaging. Investing is by its nature a long-term endeavor and three years is a relatively short period. I hope my writing and updates will continue to be of value to you for the next three years, and the three after that, and many more years after that.

It feels appropriate to restate a few points from prior letters about my investing approach as a reminder and reaffirmation of what you should expect from me.

- First, I am an active investment manager. I believe it is possible to outperform an index by active stock selection and concentrated portfolios.
- Second, I analyze the markets and investment decisions based on financial and economic fundamentals, with particular focus on discounted future cashflow analysis. In the long run, I believe this is the only sound basis for evaluating investments.
- Third, I believe my small size, both in assets and operational complexity (I'm a one-man shop), is an advantage and improves the flexibility of my approach.
- Fourth, I am investing for the long term. Maximizing return for the next quarter is not my concern. Rather, I'm trying to achieve good returns for the next decade. This means I'm willing to endure volatility. I look for companies that are well suited to compounding shareholder return in the long term.

Market Review

Equity markets remained strong in Q1, with the S&P500 TR index increasing by 10.56%. As mentioned in my last letter, there was a wide disconnect between the Federal Reserve and the bond market on the path for future interest rates in January of this year. The Fed had been saying they expected three cuts this year while the market expected seven. Throughout Q1, the market moved to more closely align with the Fed. Surprisingly, the equity market continued to climb even as these bond market revisions occurred. I continue to think the equity market will eventually realize the implications here for valuations, and equity valuation will decline, but for now it seems oblivious. Time reveals truth.

To position for this, your portfolios continue to be relatively conservative with higher levels of cash than usual, avoiding the riskiest stocks. This positioning will serve well if/when there is a market decline. As usual, I can make no guarantee of future performance or results, but I want you to understand my logic.

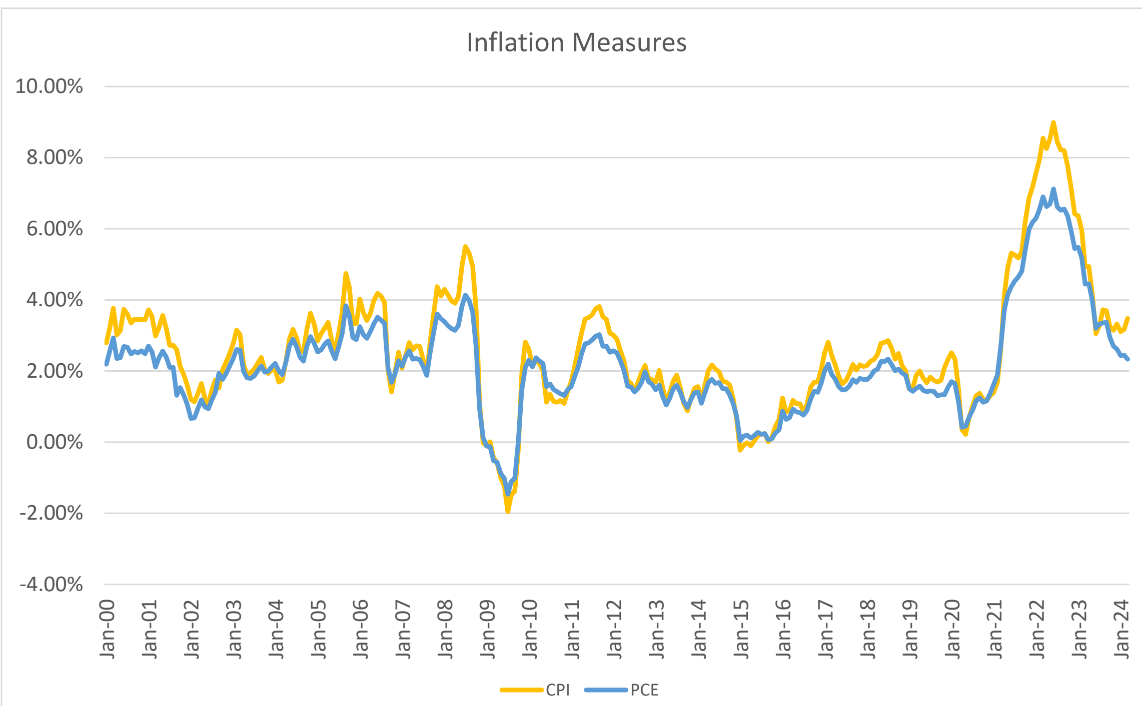
Inflation

Much ink has been spilled on inflation in the past few years. Most of this commentary is focused on the data. However, there is always a deeper story underneath the data. I found the following quote in a recent edition of Grants Interest Rate Observer that I felt described the current moment of inflation better than anything I've read in years on the subject. And, surprisingly, the quote is about 70 years old.

> *"Inflation," writes Röpke, in a passage from his essay* Welfare, Freedom and Inflation, *written late in the 1950s, "is the way in which a national economy reacts to a continuous overstraining of its capacity, to demands which are extravagant and insistent, to a tendency towards excess in every sphere and all circles, to a presumptuous overconfidence in oneself, to a frivolous attempt always to draw bigger checks on the national economy than it can honor and to a perverse desire to combine what is incompatible. People want to invest more than savings permit; they demand wages higher than the growth of productivity justifies; they want more imports than exports can earn; and above all, the government, which should know better, raises its claims on this overstretched economy higher and higher. Thus, there is a riot of claims*

> *and an insufficiency of goods produced to meet them. Just as there are organs in the human body, in which, if consistently abused, ailments slowly but surely accumulate, eventually taking their revenge, so the national economy has its own equally sensitive organ. That organ is money. It becomes feeble and ceases to resist, and it is this enfeeblement which we call inflation, a dilation of money so to speak, a managerial disease of the national economy."*

If the sentiment in this quote can be used to accurately describe our situation today, then it seems logical that inflation will remain difficult to contain in coming years. Human nature changes slowly. Therefore, interest rates are also likely to remain elevated and financial assets, from stocks to real estate, by the force of the discounted cash flow equation, will have downward pressure for some time.



Housekeeping

A few closing reminders:

- As I've said several times now, please do not text me with questions. I simply cannot respond with any information via text messages. Regulations make it problematic to use this method of communication. Of course, I welcome the chance to chat on the phone with any of you anytime.
- Please make sure your information in IBKR is updated and accurate. You may be prompted to update and confirm your information when you log in. And of course I can talk you through how to make the updates.

As always, thank you for allowing me to manage a portion of your wealth.

Kind regards,
Todd Niemann, CFA