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“Long-term consistency trumps short-term intensity.”-Bruce Lee

20th of January 2023

Dear Clients and Friends,

While it remains early, we are encouraged by the recovery that we have seen across many of our holdings in 2023. We own a collection of well-capitalized companies with durable business models, proven management, and a long runway to grow profitability. We did little selling in 2022 because we believe that the stock price declines in our portfolio are largely temporary, the underlying business fundamentals are strong, and the future returns from the current prices will reward our patience.

2022 was a challenging year for markets with the S&P 500 and NASDAQ indices down 19.4% and 33.1% respectively. Softening consumer demand, inflation, and rising interest rates weighed on markets throughout the year. Our managed portfolios were generally down more than the S&P 500 Index due to our lack of exposure to energy and defensive sectors such as consumer staples and utilities but outperformed the NASDAQ composite due to our higher allocation to financial companies and a higher percentage of companies with a proven history of profitability. We remain optimistic that our portfolios can post strong gains in 2023.

THE OWNER’S MINDSET

During periods of market volatility, staying true to ones’ core investing principals provides clarity and peace-of-mind. One of our abiding principals is to approach stock ownership like business ownership. We call this the owner’s mindset. The owner’s mindset is distinct from the trader’s mindset. Consequently, we spend most our time analyzing business fundamentals and industry trends rather than the near-term direction of the stock market. We seek long-term capital appreciation, allowing us to tax-efficiently compound our capital. The owner’s mindset suits our temperament, and if it is well-executed, we believe it can deliver strong returns.

The owner’s mindset is surprisingly rare in today’s public equity markets. Daily liquidity, pressure to deliver quarterly performance, and media-fueled worries about the economy conspire against it. One way that we resist these forces and stay grounded is to invest in companies that are operated and managed for long-term owners. We find that the best way to ensure that a company adopts the owner’s mindset is to have large long-term owners as shareholders. A quick glance at some of our holdings reveals why many of our companies share our philosophy:

Company	Ticker	Key Holder	Ownership Value ($)
Starbucks	SBUX	Howard Schultz	$2.3 Billion
Dish	DISH	Ergen Family	$4.0 Billion
Charter	CHTR	Liberty Broadband	$18.3 Billion
Netflix	NFLX	Reed Hastings	$1.6 Billion
Spotify	SPOT	Daniel Ek	$1.2 Billion
Asana	ASAN	Dustin Moskowitz	$1.5 Billion
Tyson Foods	TSN	Tyson Family	$4.7 Billion
Lennar Homes	LEN.B	Stuart Miller	$2.3 Billion
Google	GOOG	Larry Page & Sergy Brin	$139 Billion

We believe that large equity ownership by key stakeholders shapes how companies operate and invest. They focus on long-term value creation over hitting short-term quarterly numbers. They demonstrate the patience and fortitude required to enter new markets and develop new products that can meaningfully increase long-term profits. We place a high priority on these cultural attributes and when companies have an owner's mindset, our long-term interests harmoniously align.

2023 CATALYSTS

In addition to strong long-term prospects, we see several positive company-specific catalysts in our holdings that have the potential to drive profitability and potentially share price gains in 2023:

Disney

In November, Disney announced that former CEO, Bog Iger, will return to lead the company in 2023. Mr. Iger is a proven leader who spearheaded Disney's transformative acquisitions of Marvel, Lucasfilm and Pixar. During his previous tenure as CEO, Disney's market value increased ~4x. We are confident that under Mr. Iger, Disney will reassert itself as a leading global entertainment company.

Amazon/Google

Amazon and Google enjoy wide competitive moats in attractive markets, but the core profitability of both businesses was obscured in 2022 due to massive operating cost growth incurred on the back Covid-driven demand that slowed considerably in 2022. From Q3 2021 to Q3 2022, Google's headcount increased ~24%, and since 2020, Amazon's headcount nearly doubled. Given that economic growth has slowed, both companies have renewed their focus on profitability and are committed to cost management. We believe both companies will deliver strong earnings growth in 2023, demonstrating their resiliency and profitability.

JP Morgan/Charles Schwab

JP Morgan and Charles Schwab are two high-quality financial services that trade at attractive price/earnings multiples of 10.5x and 17.5x respectively. Both companies are well-positioned to grow their earnings in 2023 as higher interest rates increases both net interest margin and the yield on their respective credit portfolios.

Spotify

Spotify stated that 2022 was the year of peak investment into its growing podcasting business, with gross margin improvement and free cash flow growth expected in 2023 and beyond. At a multiple of ~1x E2023 Price/Sales, we believe that Spotify is inexpensive relative to the profits the business could generate if forecasted revenue grows faster than costs. Spotify has built a loyal base of 450mm listeners that it has only just begun to monetize; in 2023 the market should begin to see the profit potential.

Starbucks

After nearly two years, China lifted the government mandated Covid- lockdowns. Increased consumer mobility should be a tailwind to Starbuck's large and growing Chinese business. With nearly 6000 stores in China and growing, we expect Starbucks to post strong sales growth in China 2023, reminding the market of the significant market opportunity for Starbucks in China.

NEW INVESTMENT-TYSON FOODS

We made a new investment in Tyson Foods ("Tyson") in Q4 2022. Tyson generates nearly $50B in sales as a diversified protein company that owns leading consumer brands such as Ballpark and Jimmy Dean. The business was founded in 1935 by John Tyson, and four generations later, the Tyson family owns ~20% of the company. In 2022, Tyson stock declined from a high of $100/share to a low around $60/share due to concerns that earnings in 2023 would be flat and margins may compress.

We were attracted to Tyson because we feel that it is a well-managed, recession-resistant business with a strong balance sheet and attractive valuation. Tyson's packaged food brands are some of the most well-known and successful in the packaged foods category. Tyson's decades of experience have allowed it to develop processes, scale, and customer relationships that would be difficult to replicate. If we do enter a recession, we feel that Tyson's business would be resilient given that consumers will still need to buy food and Tyson's brands are household names that are broadly distributed. In prior economic downturns, Tyson's business held up reasonably well.

Tyson is trading at less than 10 times its estimated earnings (P/E) in 2023, a 13% discount to its seven-year average of 11.5x and a ~40% discount to the median S&P 500 estimated price/forward earnings ratio of 19.5x. We believe that this an attractive valuation for a recession-resistant business with a strong competitive position in a durable market.

Sincerely,

Ben Weiss, JD
Chief Investment Officer

Tom Eidelman, CFA
President

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