"You don't lose if you get knocked down; you lose if you stay down. -Muhammad Ali

11th of October 2022

Dear Clients and Friends,

In the eye of this market storm, we find refuge in knowing that we own high-quality businesses run by experienced management teams. We believe these stocks are trading at prices that imply very attractive long-term investment returns. The management teams of our holdings clearly agree. As we'll outline later in this letter, our holdings are experiencing the highest level of insider buying and stock buybacks that we've ever seen.

While the vast majority of our portfolio's underlying businesses are performing well, we have unquestionably entered a challenging macroeconomic period. The latest 8.3% inflation rate has inflicted economic pain on consumers through higher food and energy costs. The Federal Reserve has begun fighting inflation by aggressively raising interest rates from below 0.25% to 3.25% and indicated more to come. This has led to car loans and home mortgages becoming significantly more expensive. Geopolitical tensions continue to mount surrounding Russia's invasion of Ukraine which has domino effects from inhibiting energy supplies to Europe to flaming geopolitical tensions between the US and China.

The main question we are hearing from clients is "How long is this bear market going to last?" and "When will it recover?" We look to history as a guide. According to Ned Davis Research, since 1928, there have been 26 "bear market" declines of 20% or more in S&P 500 Index. The average decline was a 35.6% loss and lasted 289 days (~ 10 months). As of today (10/11/22), the S&P 500 has declined 25% and has lasted 280 days. While nobody knows when this current bear market will end, we are encouraged that the current duration of the decline is near the historical average of bear markets and that subsequent bull markets can be fast and rewarding. Subsequent cyclical bull markets averaged a gain of 115% over 2.7 years on average.

Our plan to help client equity portfolios survive and thrive through this market volatility is to stick with a portfolio of high-quality companies that meet our investment framework of having advantaged businesses, experienced management teams, special corporate cultures, wonderful customer experiences, and trading at valuations that offer a compelling risk/reward potential. We have done little selling during this period of market volatility because we know what we own, believe our stocks are cheap, and feel that future returns will be strong.

CONFIDENCE & INSIDER BUYING

No factors give us more confidence than when the CEO and/or other key "Insiders" of our holdings purchase their own stock or when one of our portfolio companies authorizes an outsized corporate buyback of their shares. This past year, we estimate over two-thirds of our equity holdings experienced a material insider buy or buyback. Management's confidence gives us confidence.

As Wall Street legend Peter Lynch said: "Insiders might sell their shares for any number of reasons, but they buy them for only one: they think the price will rise." The data suggests they are most often correct.

Numerous academic articles have been published showing the outperformance of companies that experience large insider buying, including a recently published March of 2022 article entitled Indirect Insider Trading in the *Journal of Financial and Quantitative Analysis* finding that companies with insider buying outperformed the benchmark by 1.9% after one year when buying directly for themselves and 4.3% outperformance when buying indirectly in related family accounts. Our portfolios include a platoon of companies with substantial insider buying as shown below.

Company	Ticker	Title	Name	Date*	Price**	Amount	Description
Netflix	NFLX	CEO	Reed Hastings	1/28/2022	$ 388.0	$20 million	First insider purchase for Hastings on record
Dish	DISH	Cofounder	Jim DeFranco	9/6/2022	$ 19.43	$24 million	Increases his position by 45%
Booking	BKNG	Chairman	Robert Mylod	9/1/2022	$ 1,934	$3.7 million	First buy since rejoining company in 2017
Spotify	SPOT	CEO /Cofounder	Daniel Eck	5/6/2022	$ 104.68	$50 million	Tweeted buy with saying "our best days are ahead"
Hillman	HLMN	CEO	Doug Cahill	3/7/2022	$ 10.45	$1 million	5 Different insider including CEO & CFO buy $2.2m
Starbucks	SBUX	CEO/Founder	Howard Shultz	5/10/2022	$ 72.67	$15 million	Two directors also purchased $6m total at $92
Charter	CHTR	COO (former CFO)	Chris Winfrey	2/1/2022	$ 591.00	$1.6 million	First purchase since Oct 2017.
Asana	ASAN	CEO/Cofounder	Dustin Moskowitz	9/7/2022	$ 73.70	> $1 billion	Largest buy on record. Insiders own 55%.
Schwab	SCHW	CEO	Walter Bettinger	4/29/2022	$ 69.50	~9.5 million	Increased holdings 100% and first buy since 2018
**Most recent buy*							
***Highest price paid in last 12 months of purchases*							

STOCK BUYBACKS

We also like to see undervalued, high-quality companies implementing outsized share buyback programs. When a company buys back stock, it reduces the number of shares outstanding and thus increases earnings per share (EPS). Stock buybacks are also a tax-efficient way for management to acquire a larger share of the company and can be an encouraging signal that management believes their stock is undervalued. S&P Global published a report in March 2020 entitled Examining Share Repurchases and the S&P Buyback Indices (spglobal.com) finding that a portfolio of companies that had repurchased 5% or more of their shares in the prior year earned an 11.2% annualized return, outperforming the S&P 500 by 2.2% annually over the 15-year period. Below is a list of a sample of companies we own that executed material stock buybacks in the last twelve months:

Company	Ticker	% Bought Last 12 Months	$ Bought Last 12 Months	Buyback Avg Price*	Description
Ally Financial	ALLY	15.9%	$2.5 billion	$ 49.3	Since 2004, Ally has bought back $6.3B or 48% of shares outstanding
Lennar Homes	LEN	7.2%	$2.1 billion	$ 97.7	Since 2004 LEN has bought back $4.0B or 22.5% of shares.
Meta Platforms	META	5.8%	$48 billion	$ 330.0	FB transacted the second largest buyback ever (Apple #1)
Amazon	AMZN	0.4%	$6.0 billion	$ 142.9	Initiated first buyback in 10 years
Apple	AAPL	3.3%	$85 billion	$ 167.0	Largest buyback in the US
Bristol Myers	BMY	6.0%	$8.2 billion	$ 66.0	BMY entered an accelerlated share repurchase (ASR) for addl $5B
CVS	CVS	1.5%	$2 billion	$ 105.0	Initiated Accellerated Share Repuchase Plan. First buyback in 5 years
*Avg Q4 2021Price					

Collectively, we do not remember a time when so many of our companies saw such large insider stock buying and sustained large share repurchases. We believe that this is a long-term bullish indicator for our portfolio including our latest purchase of Charles Schwab (SCHW) which we will outline on the next page.

Over the last 90 years, bear markets, defined as a 20% or greater decline, have occurred on average every 3.6 years. We find ourselves amidst one now. Each previous time we have emerged stronger and a little wiser. We believe this will be true once again.

Sincerely,

Ben Weiss, JD
Chief Investment Officer

Tom Eidelman, CFA
President

NEW INVESTMENT - CHARLES SCHWAB (TICKER: SCHW: PRICE: $72).

With roughly $7T in total client assets, Schwab is one of the largest and most respected financial services brands in the world. As long-time personal and institutional Schwab customers, we've experienced first-hand the quality, reliability, and value that Schwab provides. Schwab's scale and brand translates into a strong financial model: Schwab generates 20% returns on equity and nearly 30% profit margins.

During the past five years, Schwab has executed two major strategies that we believe have improved its competitive position and deepened its moat. First, in 2020, Schwab acquired competitor TD Ameritrade, giving Schwab greater scale. Second, Schwab moved to commission-free stock trading for customers and adoption of a banking business model. We believe the no commission/banking strategy creates higher customer satisfaction and a more defensible business model. As an added cherry on top, the new business model could benefit significantly from rising interest rates. As rates rise, the spread between the interest Schwab pays on their sticky customer deposits and what it earns as a lender could widen leading to higher-than-expected earnings growth.

Schwab currently trades at ~15x E2023 earnings, a 14% discount to the forward market multiple of 17x and an attractive valuation for a business of its quality and durability. Over the next few years, we believe that Schwab can grow its earnings at a low teens rate. By 2025, we estimate that Schwab could earn $5.50/share, trade at a historically average market multiple of 20x, and be valued at $110 per share, offering 53% potential upside. We are further encouraged that Schwab's CEO, Walt Bettinger, personally purchased ~$9.5 million worth of shares just a few months ago in April.

Schwab is the kind of company we are looking to hold for the long run; advantaged and improving business, aligned and talented management team and workforce, industry leading products and customer service, and trading at a valuation which we think could result in investment outperformance over long periods of time.