July 9, 2024

Q2 2024 INVESTOR UPDATE

EQUITIES

Performance: Equity+ accounts gained ~9.6% since the start of 2024. Importantly, from our 2016 inception date your portfolios appreciated by ~16.0% annually, well ahead of our internal "double digit" bogey. Reported results include the deduction of all expenses and fees.

During the recent quarter there was little activity of note. We sold our position in the Puerto Rico Sales Tax contingent value instrument (CVI) with a gain of ~56% over a ~1 year holding period. After the substantial rise in price and no material upside to our expected cash flows, the risk/reward proposition made the decision to sell an easy one.

Outlook and Opportunity: Many continue to question the wisdom of value investing. The cult of growth and momentum has left the *typical value* investor in the dust, leaving some investors to ask if they should just give in, follow the herd into the tech industry's obvious winners, and ride the new wave.

We see more wisdom in following a proven rational process than chasing popular trends. While value hunters are faced with difficult conditions, we're increasingly excited about the opportunities that are developing. Huge sums of money are being siphoned from the type of investments that we love most—steady, cash flowing assets—and into highly priced momentum stocks. The longer this persists, the more likely we will have a large opportunity set to exploit. We believe this opportunity is already starting to materialize.

During the recent lull in portfolio activity, we've been preparing. A handful of companies on our watchlist have already declined in price, though not yet enough for us to pull the trigger.

Your portfolios have dry powder that we plan to invest at attractive risk adjusted returns, but until we have opportunities in hand, we are holding cash—and we're ok with that—it's currently earning north of 5% with minimal risk.

-Joe Di Scala, CFA

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FIXED INCOME

"If you don't find a way to make money work while you sleep, you will work until you die."
-Warren Buffet

Joe recently posted this quote on LinkedIn, and I thought it was worth repeating here.
His comments on Equities are posted nearby, but when we think of fixed income performance in particular, these words hit home.

And while the cause of keeping your investments in perpetual motion to your benefit may sound obvious, current market conditions indicate that our view is now that of the minority; How else does one explain the market's willingness to accept far lower rates on 10-year bonds than those with a 2-year maturity. Many investors are clearly putting more faith in their vision of future interest rates over the opportunities that are currently at hand.

While the rest of the world focuses on the Fed, we think you're likely to find better insight through our current portfolio metrics below which represent the rates at which you'll be earning when you go to bed tonight.

Income+ as of 6/30/24:

Cash Yield:	5.7%
Avg. maturity/float:	2.3 years
% Discount to par:	6.7%

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US Treasury 10 Year Yield: 4.4%

Muni+ as of 6/30/24:

Cash Yield:	4.6%
Avg. maturity/float:	4 years
Discount to par:	4.4%

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Bloomberg AAA 5yr Muni Yield: 2.9%

-Arch Peregoff