January 24, 2020

Another decade down the drain…

Dear Fellow Investor:

I don't know about you, but I view our investment results for 2019 with a great deal of satisfaction. (I HOPE you agree!) The S&P 500 put in one of its best years in the last 30 years (only 1995, 1997, and 2013 were better, and not by much), up 28.88% (31.49% with reinvested dividends). And I'm pleased to report the accounts for which we at Weybosset Research & Management LLC (WRM) are responsible generally beat the market by a decent margin.

Our accounts were up about a third for the year.

Now, again, I don't know about you, but one might find an increase in net worth of about a third in a single year exhilarating. One should also know better than to think this kind of move will repeat itself any time soon. 2019 is only the fifth time in the last 30 years that the S&P exceeded the 30% return mark. But the lesson learned is *you have to be there when it happens*—an argument in favor of remaining fully invested and against any attempt to "time" the market.

There were a million reasons, spilling from your TV, your radio, your computer, your newspaper, from conversations around the water cooler, *not* to own stocks in 2019. *The end is always near* (to cite the title of a recent book) -- but the end tends not to come; life goes on. Meanwhile, untrumpeted by the media, millions of ordinary people all the way around the world seek to provide goods and services to those seeking such goods and services at mutually agreeable prices.

It is this latter activity in which we seek to participate. In a word, we look for individual *businesses* as repositories for your capital, businesses that *over time* will provide income and growth sufficient to meet (or exceed) your objectives. I emphasize the element of time because the realization in the stock market of the value embedded in a great business can be a lumpy process, terrible sometimes, mediocre at other times, but great occasionally, highly satisfactory overall. 2019 was one of those great years and we'd be crazy not to celebrate.

Another source of gratification for me as I look back on 2019 is that we achieved our results without owning any of the technology giants, Facebook, Amazon, Apple, Microsoft, or Alphabet (Google) that dominated the market last year (and the last ten years) and now account for more than 17% of the market's total value. (Five stocks out of hundreds!) We at WRM consider ourselves value investors, broadly defined, and the kinds of prices at which these stocks trade (as well as questions as to their long-term business advantages) preclude us from investing in them.

But, wait, value investing has not been a good way to go for at least the last ten years. Over long periods of time, value investing beats any other strategy. But "long periods" keeps getting longer in the 21st Century. The Russell 1000 Value Index has lagged the Russell 1000 Growth Index by about 4 percentage points *per year* since 2010. That's a cumulative lag of around 45%.

The gap widened in 2019 and for smaller capitalized stocks the size of the current gap was only exceeded in 1929 and 1999. The divergence is likely due to the increasing popularity of indexing (why buy individual stocks when you can own the whole market?) and high-frequency trading, both of which tend to be trend-following strategies, indifferent to price or long-term outcomes. As a result, the market as 2020 begins features a handful of wildly expensive, wildly popular stocks, and a much longer list of less-well known but attractive companies selling at large discounts to their true value. Our holdings are found in the longer list.

Trend-following can only be successful until the music stops and investors all start looking for seats at the same time, or (to switch metaphors) until someone notices that the emperor has no clothes. When investors notice that *our* companies are in fact beautifully attired in highly and consistently profitable businesses, businesses which they dominate, evincing consistent growth, clean balance sheets, exceptional leadership and available at prices that are just *too low*, we can anticipate a splendid payday at some point. Just because that payday has not come in the past ten years does not mean it's not coming. We just have to be patient. In the meantime, we seem to be doing alright, as 2019 testifies.

So, thank you for your participation in our endeavors in 2019. We are grateful for your business and look forward to continuing to serve you in 2020.

Yours very truly,

Fla Lewis III
Principal

P.S. Speaking of serving you in 2020, our move from Merrill Lynch as custodian to Charles Schwab is going very well, better than I anticipated. A change in custodians feels a little like a change in residence, like moving to a different town. You have to pack, make sure everything is in order, it takes time and effort—in other words, it's a hassle. A little more than a year ago, Diane and I moved from the East Side of Providence to Rehoboth, Massachusetts, so I suppose that's why the move to Schwab reminds me of moving to a new town. I'm pleased to report that we love Rehoboth, we're glad we made the move, and I'm sure we'll all find Schwab a nice place as well. Hats off to Jeannine and her co-conspirators at Schwab for conducting the operation and thanks to you for your cooperation.