

July 21, 2021

Dear Fellow Investor,

At the end of June, I underwent back surgery to correct some of the ravages of arthritis in my spine. Recovery is going well—I'm enthusiastic about prospects once I'm back on my feet—but in the meantime, I'm flat on my back in the early stages of healing.

So, my partner Justin has taken the job of writing our customary quarterly letter. Pay attention! He has some good things to say!

All my best, and thanks for your business,

Fla

Macro or Micro Finance?

“Most people overestimate what they can accomplish in one year and underestimate what they can accomplish in ten years.”

--Bill Gates

Dear Fellow Investors,

The bull market continues. The S & P 500 finished the second quarter up 8.5% bringing the total return to 14.50% year to date (15.23% with reinvested dividends). I am pleased to report that the first half of this year was also a good time to be a client of Weybosset Research & Management, as the accounts for which we are responsible performed in line with the S & P 500.

The recent pandemic reduced the American economy to shambles. But the ingenuity of our citizens allowed it to come roaring back quickly. Sure, parts of the economy are still in distress, but with each passing day, they are healing.

The pandemic created uncertainty and fear. But as we move through the recovery, we see silver linings: tremendous pent-up demand, massive savings, and an under-appreciated earnings boom, all valid reasons for the stock market to keep its upward trajectory over the next few years. As I write the market has experienced one of its least volatile times in history. But surely volatility will spike again. There will be setbacks and market corrections but trying to time them is a fool's errand.

In recent weeks, the media and the Wall Street machine have been buzzing with the topic of inflation. Inflation is real. You may have noticed it in your grocery purchases, airline tickets, packaged goods, freight costs, lumber costs, used cars, and hotel stays. But inflation can be volatile, as some prices have peaked and rolled over in the last month. Lumber, for instance, is down 60% from its high.

The best place to invest capital over long periods of time to offset inflation and the erosion of the value of a dollar is productive assets, such as U.S. equities. That is because no matter what happens with the value of a dollar, the businesses products will still be in demand.

“If you own the Coca-Cola company, you will get a given portion of peoples’ labor 20 years from now and 50 years from now for your product and it doesn’t make any difference what’s happened to the price level, because people will pay for the products they like.”

--Warren Buffett

Fortunately for you and for us, we do not invest your capital based on a particular opinion about the direction of the stock market or whether inflation will continue to rise or fall.

For years, we at Weybosset have invested in businesses not on what they will earn next quarter or next year, but what their results will become in five or ten years or longer. We have successfully bought and owned these gems for years, compounding money for decades.

We do not focus or invest on macro news because it is in constant motion. Rather, *we bet on management and competitively advantaged businesses*. After combined seventy years investment experience, we at Weybosset do our own research.

We do not rely on those who are worried about next quarter’s performance. To us that is short sighted and leaves too much room for missing upside. Because of you, our loyal client base, one that is invested alongside Fla and me, we have the luxury of making long term decisions that most other firms cannot.

Earnings do not move in a straight line and neither do share prices. We have many examples of investments- think agriculture, electric vehicles, newspapers, metering and testing instruments, and wrecked cars to name a few- in which the earnings of these companies grew handsomely while their share prices sat around for two to three years before the markets realized their true worth. Those stocks went on to double, triple, and even make ten times our original investments.

“A great company keeps working when you’re not. A great company will eventually earn more and more and more while you’re just sitting and doing nothing. And a mediocre company won’t do that. So you’re harnessing a long range force that will help you. It’s very important. These mediocre companies, they by and large are going to cause a lot of agony and very modest profits. If you do fine, *you’ve got to sell it and find another one*. It’s a lot of work. Whereas you just buy one great company, and if you get the right thing at the right price, you just *sit there*.”

--Charlie Munger

Over the last five years Weybosset shareholders have been handsomely rewarded for being stewards of patient capital. This patience has enabled our shareholders to buy their homes, live comfortably in retirement, and pay for their children and grandchildren’s educations.

Fla and I have been pleased with our performance during the pandemic and the last few years. I hope you have been, too. In a period that has been difficult for “value investors”, we have performed inline or outperformed the S & P 500 and continued to grow our business. We are highly confident, bumps and corrections notwithstanding, that the trend will continue for the next decade and beyond.

Thank you for your continued support and for the privilege of working for you. We will continue to do our best and update you with any necessary information. As always please feel free to contact us with any questions or concerns. We would love to hear about what is going on in your world. Stay safe.

Sincerely,

Justin Deutsch

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