

October 18, 2021

*The job of the Federal Reserve is “to take away the punch bowl just as the party gets going.”*

--William McChesney Martin, Chairman of the Federal Reserve, 1951-1970

Dear Fellow Investor:

The pace of ascent of the stock U.S. stock market slowed in the third quarter of 2021, but the ascent persisted, to the benefit of those of us affiliated with Weybosset Research and Management LLC (WRM). On a year-to-date basis, the S&P 500 Index is up 14.7% (15.25% with reinvested dividends). The accounts for which we are responsible, with few exceptions, performed about in line with the broad averages.

If the trend continues, and we have no reason to believe it will not, 2021 will come in as the third year in a row of highly satisfactory results in the stock market—albeit, as the first half of last year aptly demonstrated, with plenty of volatility along the way. Our policy of recommending clients hold *adequate liquidity* alongside productive assets in the form of publicly traded businesses, allows us to ride out the volatility and then enjoy the upside. That is what we are doing now. (I hope you’re enjoying it!)

In the past, members of the WRM crew besides me have contributed to our quarterly letter to you-- Tom, once, before he had the temerity to retire, and Justin on multiple occasions. This time I’ve asked Jeannine Bizier to chime in. Most of you have had the pleasure of talking with Jeannine—I’m told it’s part of the “Weybosset Experience”—but you may have wondered what’s going on in her head as she whisks through the administrative end of our business. She’s about to tell you...

But first, I want to take a minute to remark on an important development in the larger economy, and that is the emergence of higher inflation as an issue. The older I get, the less confidence I have in predictions about mega trends in the economy—there are just too many moving parts—and the more I have confidence in investing my money in a handful of excellent businesses run by outstanding leaders. George Gleason at Bank OZK, Warren Buffett at Berkshire Hathaway, or Jay Adair at Copart are far more qualified to assess and act on the effects of inflation on their businesses than any lofty pontifical judgment I might have.

Nevertheless, a few observations. First, according to accepted economic theory, monetary theory, that is, all the elements are in place for a rip-roaring 1970s-style inflation. In response first to the global financial crisis of 2008 and its aftermath, and then to the onslaught of the Covid-19 Pandemic, central banks and fiscal authorities around the world have flooded the economy with money. We are drowning in money. This was an effective answer to the economic threat posed by the virus, but now that the economy is recovering, and recovering strongly, is there any appetite anywhere for “taking away the punch bowl?” I doubt it.

This leads us to the second aspect of debate, and that is, whether inflation is “transitory”, as our own Federal Reserve maintains, a result of temporary disruptions caused by supply chain bottlenecks

meeting pent-up demand as pandemic lockdowns conclude, which will straighten themselves out over time; or the beginnings of an inflationary spiral a la the 1960s, 70s, and early 80s. On the one hand, I have suspected, privately, to myself, but sometimes to you, that competition is so intense in the global economy that no business dare raise its prices, so prolonged systemic inflation is unlikely to be a problem. (I always cite Jeff Bezos's "Your profit margin is my opportunity" remark.) On the other hand, there sure is a lot of money out there, and no sign of any willingness to take it away.

Fortunately, however the debate works out, we at WRM are well-positioned. The worst possible asset to own in an inflationary environment is an asset denominated in a specific currency, because, by definition, that currency is losing value. Bonds or bank deposits head the list as the most hated assets in a world characterized by inflation. But *productive assets*, such as the businesses we own, are the best bet for beating the inflation bogeyman. People are going to want to eat, whatever the price; thus, John Deere continues selling farm equipment. People will continue to wreck their cars, so Copart stays busy, inflation or no inflation. People need to look after their health, so Johnson & Johnson and Labcorp power on. Et cetera.

But enough of the dismal science, as someone once characterized economics. Let's see what Jeannine has to say.

Fla

Hello all:

I hope this finds all of you well. The summer went by so quickly, but I am looking forward to the cooler weather and the upcoming holidays. Fla thought that I should contribute to the quarterly letter to give you some idea of the different things I do for all of you.

First, I love working with you. It gives me great pleasure helping with your needs. Being a small shop, a boutique if you will, allows me to give you the best possible service. Every phone call gets answered by me or Justin; you will never get a computer/voice prompt; we believe in the personal touch.

I am also proud of our longevity at Weybosset Research and Management. Fla and I have been together over 25 years-yes, 25 years, seems like yesterday. We work so well together. He's the brains and I'm the factotum, a title that he wanted me to put on my business card, but I said, ABSOLUTLY NOT! And no, it is not on my card. And now I have Justin to work with, rounding out our team for the next 25 years.

During the beginning of the pandemic, we were transferring to Charles Schwab. It was a little challenging at first, but with the help of a new account representative from Schwab, who was second to none, the process became much easier. I am very happy with Schwab's many automated processes; I am better able to assist with your needs and requests.

For example, if a client takes distributions from his or her account, I receive a notification that money needs to be raised. If a wire is coming in or going out, I get notified of that as well. I can wire funds out with ease, especially if the wire is going to a same-name account. However, I cannot wire funds to a third party. If you need a wire to a third party, I can set it up with instructions, but I will not be able to complete the wire unless it is approved online through the Schwab website.

If you need an address change, email change or a phone number change on your account, you can easily go online and make that happen. I also cannot change the way you receive your statements; that needs to be done online as well. If you don't have internet access or need help with the website, you can call Schwab at 800-515-2157 for help. These policies are for everyone's protection.

There are times when requests are controlled by policies and procedures. It may take longer to get done but please know I will always work in your best interest.

I'm happy to hear that most of you have internet access to your account. With that you can also download the Schwab application on your phone and make check deposits that way. Unfortunately IRA contributions still must be a physical check mailed to Schwab. I am more than happy to provide the address for you if needed.

One other thing I want to mention: if you have an account(s) with another firm and want to combine it with your current account(s) at Weybosset, all it takes is a signature on the transfer form and a copy of your latest statement. I will fill out the paperwork for you once I have that information. Transfers usually take about 5-7 business days to complete, the industry standard. If you have any questions about the process, please feel free to call.

If you have any questions, please do not hesitate to call.

Thank you very much for your confidence and business.

Sincerely,

Jeannine

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