

April 21, 2022

Inflation & Geopolitics: Risk Vs Volatility

Dear Fellow Investor,

Interesting times for investors!

On a cumulative basis the last three years witnessed spectacular returns for the major indexes and with them Weybosset investors, nearly doubling our money over that period of time. Perhaps then we should not be nonplussed that the first quarter of 2022 went down as one of the worst on record.

The S & P 500 finished the quarter down 5%, the tech-heavy NASDAQ down 9%, and the U.S. Aggregate bond index logged its worst quarter in fifty years, down 6.8%(!).

The average stock has seen a correction from its high of 15%-35%. The accounts for which we are responsible at Weybosset fared slightly better than the S & P 500.

But the indexes do not reflect the internal damage done.

As the Federal Reserve continues its inflation-fighting regime change, a process accomplished by raising interest rates and withdrawing liquidity from the system (Quantitative Tightening), investors began to shun riskier businesses that while innocent of profit, trade at nosebleed valuations, in favor of **profitable, cash flow positive** companies—in short, the **Weybosset portfolio**.

Profitless stocks continued their slide in the quarter, compounding already large declines of 50%-90%, in some instances giving up more than four years' worth of gains.

Bonds, according to conventional wisdom a safe haven, were far from safe in the first quarter. Most investors have long forgotten that you can lose principal in bonds as interest rates rise in addition to losing purchasing power to inflation.

Meanwhile value stocks- think the largest conglomerate in the world (Warren Buffet & Charlie Munger), -personal computers & printing, band aids and pharmaceuticals, agricultural equipment, herbicides and organic pesticides, tanks and submarines, made **new all-time highs**. One reason for the switch into value names: these businesses enjoy pricing power capable of beating inflation.

I am happy to report that I'm sleeping well these days, thanks to the fundamental soundness of our investments, and wish you the same, despite the craziness out there.

The stark performance divergence in the market illustrates a few points that we try to demonstrate.

1. Never lose money. We do that by investing in profitable businesses.
2. It is futile to try and time the market, like dancing in between rain drops, as the market efficiently discounts and adjusts prices before you can do anything about it.
3. Risk vs Volatility: Risk is not understanding what you own. Volatility is prices jiggling up and down.
4. Patience "*The big money is not in the buying or the selling, but in the waiting*". --Charlie Munger

Volatility has spiked due to geopolitics (Ukraine & Russian War) and investors trying to gauge the Federal Reserve's every move. The angst-inducing news is everywhere, seeping into investors' mindsets, creating dramatic short term moves in the stock market.

Smells like opportunity to us.

For all the prognosticating about the Federal Reserve, Putin's every move, and how we will have no food on our shelves, quietly, without attracting a lot of attention, corporate profitability remains pretty darn good, at least here in the United States. You own a curated collection of American Businesses.

The U.S economy is strong and stable and can take a lot of abuse. Uncertainties are inevitable, whether they derive from political or monetary policy, or anything else i.e., acts of God such as a pandemic.

Under these circumstances, volatility arising from aforesaid horrible headlines we regard as opportunities to invest at reasonable prices in outstanding businesses that will increase in value long after the headlines are history.

We invest in businesses and their management teams. Based on their track records we trust management has the capability of steering their businesses through any economic and geopolitical climate.

"We care a lot about the price, we do not care about the next 12 months...Economic predictions just don't enter into our decisions...In the hard sciences you know that, if an apple falls from a tree, it isn't going to change over the centuries because of anything, or political developments, or 400 other variables that go in. But, when you get into economics, there are so many variables. And the truth is, you've got to expect good times and bad times in business. If you were to buy a [business], you wouldn't try to time the purchase, you would try to make the right purchase at the right price..." --Warren Buffett

During the quarter, you may have noticed a few changes to your portfolio. We at Weybosset stick to fundamentals, our key criterion during turbulent times (All the time!). A primary consideration is the price we pay for a business.

From time to time markets provide us with tantalizing opportunities - transportation and logistics, for instance, and a high-end furniture and lifestyle (aspirational) brand, businesses that are profitable and have predictable earnings growth.

Mr. Market's depressed view of these stocks has offered us desirable assets at attractive prices. We are happy to accept the offers.

These recent purchases are of companies and management teams that Fla and I have long admired, the foundational research on the businesses was complete, however the price wasn't right. The recent market turmoil has changed that, so we took action.

The prices we paid for said investments in the first quarter of 2022 we think will provide highly satisfactory long-term returns with low downside risk, our favorite combination. We are buying pieces of businesses...over time we win.

Warren Buffett has gone on a shopping spree, too: over the last two quarters Berkshire has purchased 10 billion dollars of its own stock, as well as an 11.40% stake, 4.1 billion dollars, in HP Inc, an investment we made five years ago.

The market in general is much more reasonably priced, but certainly many of our investments are downright cheap. Mr. Buffet and Mr. Munger have noticed.

So, we remain optimistic on the future of our Weybosset Portfolio and the American economy. We very much appreciate your loyalty to us. It is our greatest pleasure that you trust us with your capital, as we wait for things to pan out. Please feel free to contact us with any questions, comments, and concerns. We look forward to speaking with you.

Yours very truly,

Justin E. Deutsch

I have nothing to add...until next time!

But I would like to join Justin in thanking you for your trust and for your support,

Fla

The foregoing content reflects the opinions of Weybosset Research & Management, LLC and is subject to change at any time without notice. Content provided herein is for informational purposes only and should not be used or construed as investment advice or a recommendation regarding the purchase or sale of any security. There is no guarantee that the statements, opinions or forecasts provided herein will prove to be correct. Past performance may not be indicative of future results. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns. Securities investing involves risk, including the potential for loss of principal. There is no assurance that any investment plan or strategy will be successful.

